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# China Report

ECONOMIC AFFAIRS

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19 March 1985

CHINA REPORT  
ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

EDUCATION IN CONSTRUCTION

Beijing JIANZHU in Chinese No 10, 7 Oct 84 p 12

[Article by Wen Qi [2429 0786]: "Chinese Education in Construction in Last 35 Years"]

[Text] In the 35 years since our republic was established, education in construction has developed, especially after the 3d Plenary Session of the 11th Central Committee of the Communist Party of China, and it has had a brilliant and healthy growth.

Higher Education in Construction

In 1949, when New China was established, in the whole country there were only 39 colleges and universities, which had faculties of construction (including railroad construction, building construction, highway construction, municipal engineering, surveying and bridge construction), general engineering and engineering businesses. The total number of registered students was 3,089. In 1952, the school structure in the whole country was reorganized and new colleges and institutes of construction were established. The total number of teachers and students was 9,227; in 1962, it rose to 19,689.

After the "gang of four" was ousted, the centralized system of enrollment examinations was resumed. More students were enrolled who majored in construction. In 1983, in the whole country there were 65 colleges and universities, 9 off-campus faculties, 2 special high schools and 34 short-term courses which had construction subjects. There were 5,826 teachers, among whom were 128 professors, 871 associate professors, 2,594 lecturers, 426 instructors and 1,847 teacher aides, for a total of 34,001 students.

In 1978, when the system of graduate study was reestablished, there were five research institutes for graduate students majoring in construction. In 1983 there were 1,328 students in master's degree programs and 9 Ph.D. candidates. In 1981 and 1982, 336 students had acquired the master's degree in architecture and engineering. From 1981 to 1983, the State General Engineering Department and the Ministry of Construction organized a teaching program for industrial and civil engineering and four other majors in construction. They also published 80 items (85 volumes) of textbooks containing a total of 33 million characters.

## High School Education in Construction

In 1953, the Ministry of Construction had set up 7 special secondary schools in construction; in 1956, there were 11. Another 10 high schools of construction were funded by cities. The total number of students in these schools was 26,648.

By 1965, there were 14 special secondary schools in construction with 18,530 students. During the cultural revolution, education in construction was basically stopped.

In 1977, the centralized enrollment examination was renewed and some new construction engineering schools and urban construction schools were founded. By 1983, the Ministry of Construction had built up 55 special secondary schools of construction, with 18,457 students. The education level caught up with the situation in 1965. Starting from 1980, the State General Department of Engineering and the State General Department of Urban Construction had worked out a teaching program for different construction and engineering subjects. In 1983, an educational plan and teaching program for industrial and civil construction and the other 4 subjects were worked out and 32 volumes of textbooks, containing some 14 million characters, were published.

## Education of Construction Workers

In the 1950's, there were only three spare-time schools of construction and six college correspondence courses in construction, except for some schools of general education for construction workers and administrators, who were released from their regular work, and some winter evening courses for workers. At the beginning of the 1960's, the country was in economic difficulty. The spare-time education for workers was completely stopped. After the 3d Plenary Session of the 11th Central Committee, the education of construction workers was reestablished.

In 1979, in Beijing the first meeting of leading cadres of the construction organizations was held at the provincial, municipal and autonomous region levels. The meeting discussed problems of the education of construction workers. The next year, the construction cadre schools and advanced courses for the party-member cadres and the schools for construction technicians were organized.

In 1981, the Chongqing Construction Institute, the Harbin Construction Institute and Tongji University were selected to open training courses for leading cadres of large and middle-size construction enterprises, courses for managing cadres of construction organizations and advanced courses for engineers. Until the end of 1983, 1,549 leading cadres finished courses, 157 finished courses for managing cadres of the construction organizations and 468 finished in different ways a great number of leading cadres, who were not released from their work posts, middle-aged and young cadres and political cadres, technicians and managers.

Higher education was also opened for construction workers. The existing "7 July Workers Evening Schools" were reorganized. Until the end of 1983, the

number of approved and registered workers in spare-time colleges was 29, with a total of 2,986 students. The number of students in construction at correspondence schools was 6,286, and the number of students at evening colleges was 1,954. In 1983, the Ministry of Construction asked the Central Television University to open an engineering course and now the course has 30,000 students.

The Chinese General Construction Company has also set up a certain number of special secondary schools in construction.

Although education in construction in our country has achieved a certain success, the general educational level of construction workers is still lower than workers in other fields, due to some historical reasons. The general qualification of construction workers is still not suitable to the tasks of the four modernizations program planned for the country. We have to speed up education in this field. First of all, we must reorganize and reform the existing construction courses and make a general plan to set up a number of faculties and special courses and to admit more students. In the meantime, we must enhance the education of construction workers and use the enterprises and the administrative units as well as the abilities of the whole society in different ways by a variety of methods to build more schools in order to educate as soon as possible a greater number of more qualified construction workers and technicians.

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CSO: 4006/68

FINANCE AND BANKING

LOCAL DEPOSITS OF FOREIGN CURRENCIES INCREASED

Nanjing XINHUA RIBAO in Chinese 29 Oct 84 p 2

[Article: "Deposits of Foreign Currencies by Local Residents Increase Monthly"]

[Text] In 3 months since they started handling deposits of foreign currencies by local residents, the Nanjing branch of the Bank of China and its 10 sub-brances have absorbed deposits of five foreign currencies, US dollars, British pounds, Japanese yen, marks and Hong Kong dollars totaling 530,000 yuan in Renminbi; the surplus deposits in August increased 69 percent over July and that in September registered an increase of 13 percent over August.

The handling of deposits of foreign currencies made by local residents has been in keeping with the needs of the policy of opening to the outside world and also satisfied the demands of the people.

In the past, foreign exchange in the hands of the local residents (including cash) could only be sold to the Bank of China and enjoyed preferential treatment as overseas remittance, now by opening an account with the Bank of China, a local resident is able to remit money outside for purchasing medicines, scientific and technical books and periodicals, instruments and other items and for payment of living and other expenses incurred by his sons and daughters studying overseas; a depositor or his direct dependents who has received permission to leave the country for permanent residence or visit other relatives may remit part or all of his deposit of foreign currencies by presenting his exit permit, he can also buy cashier checks in terms of RMB from a bank where he keeps an account for use to buy things at the friendship store. This is a reform introduced by the Bank of China to strengthen services and expand business operations and a measure for the state to relax exchange control welcomed by the people.

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CSO: 4006/166

FINANCE AND BANKING

NEW FACE OF STATE TREASURY THROUGH REFORM

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 11, 4 Nov 84  
pp 6-7

[Article by staff commentator: "Implement the Spirit of Reform, Initiate a New Situation in State Treasury Work"]

[Text] The state treasury is an important component in the execution of the state budget, yet it assumes the important responsibilities of handling the income and expenditures of the state budget and promptly reflecting the situation for implementing the state budget. In order to suit the new situation of vigorous development and initiate a new situation in state treasury work, the Ministry of Finance and the People's Bank jointly held the National State Treasury Work Conference. Finance, banking, tax and state treasury representatives as well as customs comrades gathered together and discussed the important matter of strengthening the work of the state treasury. This was one of the few distinguished gatherings on the work of the state treasury since the founding of the People's Republic. It was extremely important and came at an extremely opportune time.

In achieving the tasks of the revenue and expenditures of the state budget, the state treasury has three functions: executing, promoting and supervising. Every year, more than 100 billion yuan of budgetary revenue and expenditures must be collected into and paid out of the state treasury yuan by yuan. This type of collection and allocation of funds is what we call the executing function. The state treasury through its accounting and report forms promptly and accurately provides the figures for executing the budget. It provides the leadership at all levels with the basis for implementing policy decisions and the investigation of policy decisions, thereby promoting the healthy and smooth carrying out of production and construction: this is the promoting function of the state treasury. The supervisory function of the state treasury safeguards the state plans and plugs up the holes, and along with tax organizations, jointly supervises units that allocate and use funds. Thus, the role of the state treasury is closely bound to the role of carrying out budgetary management.

In order to give play to the roles of the state treasury, for many years the state treasury at every level and the comrades engaging in state treasury work have done a great deal of work, accumulated abundant experience and made significant contributions. Leading comrades from banks in many areas pay much attention to the work of the state treasury and truly regard the business of representing the state treasury to be an important responsibility that the state has given to banks. The banks place the state treasury work on their own agendas, regularly carry out deployments and inspections and promptly solve existing problems. This is especially true for the vast number of state treasury workers on the first line who, under the circumstances of being understaffed and having incomplete organizations, have overcome every type of difficulty and have completed all of their tasks. For the past few years the volume of the state treasury's business has exceeded 150 billion yuan per year, and the state treasury is able to promptly complete its work of collecting, dividing and retaining and has ensured a supply of construction funds. The state treasury at all levels pays attention to strengthening management, drawing up systems and methods, strengthening basic work, making regular reports of their situation and exchanging experience. Thus, the quality of state treasury work is continually improving. In order to raise the professional quality of new cadres, the main state treasury branch and the key branches are starting to pay attention to using new forms of professional training. Throughout the country, more than 2,000 people have taken part in the training and have raised the professional level of cadres. A few primary-level state treasuries have utilized the banks' special traits of having vast connections and an ability to quickly comprehend economic information, are collecting and gathering the relevant data, carrying out business analyses and promptly providing the relevant departments with economic information, and they have promoted the prompt storage of all types of revenue. Many state treasuries are carrying out an earnest investigation of the allocation and refund of treasury funds, are actively cooperating with tax departments, giving play to the supervisory role of the state treasury, and they have stopped a few tax evaders.

At the same time as fully affirming achievements of the state treasury, we must also realize that state treasury work has developed very unevenly because our leadership of state treasury work has not been strong enough. A few comrades from bank departments do not consider the management of the state treasury to be an important responsibility with which the state has entrusted banks. They feel that it is business that should be managed along with finances. Sometimes because of management needs, the substance of the work has been increased a little, and these comrades feel that it is an added burden. Some affect the smooth development of work because they do not take enough initiative to get the cooperation and support of comrades engaged in financial and tax work. The current level of organization and personnel and the professional level do not suit the needs of the work, and we need to give more play to the supervisory and promoting roles of the state treasury.

Currently, state treasury work is faced with the new situation of the open door policy, the stimulation of the domestic economy and the restructuring of the economic system. Both the restructuring of the national economy's management system and the restructuring of banking, financial and tax systems will bring about new changes in state treasury work. This restructuring must be reflected in changes in the forms of all types of revenue and in specific procedures for state treasury business. Currently, channels for funds have increased, allocating units have increased, state treasury tasks have become more important and the demands of the work are even higher. We must quickly understand the new circumstances, study the new problems, suit the new situation, propose new methods and initiate a new situation in state treasury work.

First, we must unify our thinking and enhance our understanding. The state treasury is the country's treasury and is the treasury for 1 billion people. All of the state's revenue and expenditures must be handled through the state treasury. Comrades engaged in financial, tax, and state treasury work or bank work at every level must fully realize the importance of state treasury work and its essential position for the realization of the state budget. More than 30 years of experience has proved that state treasury work is an important component of work in implementing the state budget and is important basic work in managing the state budget. Every bit of revenue of the state treasury is closely linked with the undertaking of China's socialist construction. The information provided by the state treasury is also related to party and state leaders comprehending the situation and drawing up measures and policy decisions for financial and economic work. Thus, we should not only look at state treasury work merely from a financial viewpoint and from the viewpoint of credit funds but we must also have a high level of recognition of the importance of state treasury work from the viewpoint of macroeconomic policy decisions. Comrade Mao Zedong during the early period of the People's Republic stated: "The state budget is an important matter and it comprehensively reflects all of the state's policies because it stipulates the scope and direction of government activity." The state treasury is the organ that executes the state budget, and this work is an important responsibility that the state has given to banks. Representing the state treasury should not be considered an "added burden" and state treasury work should not be regarded as simple, routine work that merely involves receiving and allocating funds. We must correct this type of lopsided view of thinking that we only have to do a good job at allocating funds and "balancing accounts" to have completed our duties.

Second, we must earnestly strengthen the leadership of state treasury work. The leadership of all levels of the People's Bank and relevant specialized banks must pay attention to state treasury work, place state treasury work on the order of the day and look upon it as work that is important for banks to comprehend. Not only must bank presidents take an interest in this work, but there must also be assistant bank

presidents who specifically take responsibility for work. This requires that we strengthen organization, replenish personnel, continually integrate and exchange work experience, promptly inspect leadership and raise the level of state treasury work. Currently, a few leading comrades involved in state treasury work only pay attention to completing the task of executing budgetary work and ignore giving further play to the promoting and supervisory roles of the state treasury. This is incomplete. We definitely must comprehensively understand state treasury work, lead state treasury work and complete the implementation of organization, personnel and work.

Third, financial departments, tax departments, the state treasury and banks must closely cooperate and coordinate. State treasury work touches upon many aspects, is strong in a policy sense and is not that kind of department that can work independently. Financial departments, tax departments, the state treasury and banks can operate well if they only have a clear division of labor with each assuming its own responsibilities and if they make a united effort and are closely coordinated with each other. Banks and the state treasury must regularly exchange information with financial and tax organizations, provide them with news, establish a joint system, discuss and solve problems, strive hard in their work to create favorable conditions for other departments and jointly assume the important task of organizing budgetary receipts and managing budgetary expenditures for the four modernizations.

Fourth, we must strengthen the building up of the ranks and raise the quality of cadres. Raising the political and professional level of existing personnel is an urgent task that is necessary to ensure that state treasury work meets the needs of the new situation. We must use every possible form to train state treasury personnel, improve their political ideology, scientific education and professional level, enable them to understand the basic knowledge of national treasury work and grasp the special technology of national consulting business. We must strive to achieve within 2 to 3 years an outstanding improvement in the quality of personnel engaged in state treasury work. At the same time, leading comrades at banks at all levels must be concerned about the circumstances of the ideology, work and livelihood of state treasury personnel and earnestly help solve their actual problems.

Fifth, we must strictly manage and give full play to the role of the state treasury. The state treasury is the comprehensive window for funds, and treasury funds are funds which the state allocates in a unified manner: these funds must be strictly controlled. First, we must strengthen the management of budgetary receipts, cause the budgetary receipts to promptly enter the treasury and promptly be divided and reported. Second, we must strengthen the management of budgetary expenditures. Financial departments assume responsibility for the allocation of state treasury funds, but the state treasury has the responsibility to supervise and determine whether the funds being used

meet the regulations of the system, and the state treasury has the authority to investigate the use of treasury funds. We must truly give play to the state treasury's role as a "sluice gate." Third, we must strengthen the management of the return of revenue. We must earnestly investigate, strengthen supervision, act in strict accord with the regulations for the procedures and need for inspection and only handle matters within the stipulated scope for returning funds. Otherwise, the state treasury has the authority to refuse to accept and hear a case. At the same time, we must also strengthen the management for entrusting special banks to handle state treasury business.

Economic construction is flourishing and the pace of every type of reform is accelerating. We must keep pace with the times, initiate a new situation in state treasury work while continuously reforming, and make an even greater contribution toward the four modernizations.

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CSO: 4006/291

FINANCE AND BANKING

FLEXIBLE USE OF ALLOCATED FUNDS RECOMMENDED

Guangzhou NANFANG RIBAO in Chinese 17 Oct 84 p 2

[Article by Deng Huaxuan [6772 5478 6513]: "Flexible Use of Allocated Funds Is Better Than Earmarking a Fund for One Specified Purpose: A Suggestion for Use of Agricultural Funds in the Budget"]

[Text] [Editorial note] A year ago Comrade Deng Huaxuan, the secretary of the Huiyiang regional CPC committee, made a proposal that the regulation of "funds earmarked for one specified purpose" should be changed. After he finished his investigation, he sent a report to the provincial party committee, which said that the rule of "earmarking funds for one specified purpose" has a function of "dusting pepper"; it sprayed the surface of the countryside but did not create any serious productive capacity and its effect was minimal. His point of view was supported by various leading persons of the provincial party committee.

Recently, the CPC Central Committee and the State Council have issued a notice of their intention to help poor areas improve their situation as soon as possible. The notice pointed out that the allocated supporting funds must be used only in selected places to develop their production activities in accordance with their particular concrete situations. We hold that Comrade Deng Huaxuan's opinion suits this Central Committee plan. The author agreed to the publication of the following abstract of his report so that comrades in different areas could know his opinion in order to implement the notice of the party Central Committee and the State Council.

Agricultural funds of our budget are monies that the upper administration allocates through financial institutions to the counties and cities for specifically earmarked agricultural uses. The principle behind this policy to use money in this manner is to "earmark funds for one specified purpose." Experience from past years tells us that this principle, which was stipulated by the leading administration and which means practically that "the money for

purchasing vinegar is not to be used for buying soy sauce," eliminates the right of counties and cities to choose the optimal way of investment. This method of money allocation tends to weaken the investment benefit and should be changed.

In the autumn of 1983, with this question in mind, we went to Longchuan, Heping, Lianping and Heyuan Counties in the northern part of our region for an investigation; we talked to many people and heard their opinions. We learned that it is necessary to change the principle of earmarking those agricultural funds included in the budget. The food problem in these four counties has basically been resolved and the production of commodities is growing, but the counties are still poor and backward for a variety of reasons. Although these counties have their own plans for economic development and have many natural resources that can be used as well as other plans for productive construction, the counties cannot do much because of limited capital. Their hydroelectric resources can serve as an example. The four counties have a potential hydropower resource of 380,000 kW (not including the Xinfeng River and the Fengshu dam). Until the time of our investigation, water resources have only been used for 60,230 kW. In the past few years the counties have made surveys, designs and plans to build eight additional projects with a total energy of 40,000 kW. Because of a shortage of capital (a kilowatt costs at least 1,200 yuan to produce), the counties were not able to start the projects. Local cadres and residents were anxious to go ahead, but were unable to do anything. In contrast with this situation, every county received each year a specifically allocated investment fund, which was dusted on specific items like pepper but did not produce much of a benefit. For example, the State Council appropriated between 1979 and 1982 43,362,200 yuan for agricultural investment, including 5,996,800 yuan for farming, 10,107,900 yuan for forestry, 15 million yuan for water conservation, 5.73 million yuan for hydroelectric generation, 515,000 yuan for livestock and 5.68 million yuan for supporting less efficient production brigades. The result proves that investment for hydroelectric generation and for livestock had obvious benefits, while all other investments did not play a big role because of a lack of money to do a special project or because of mishandling. The money for supporting less efficient production brigades proved extremely ineffective. In 1981, Longchuan County allocated 247,000 yuan to less efficient brigades. This money was given to 13 units. Some received 40,000 yuan and others received 5,000 yuan. The result was that only six brigades achieved some positive results with the money and all the other units did not even use the money for production. We do not have much money and the money that we do have we have used in this "pepper-dusting" way. This is a foolish and pitiful way to handle money. If we can concentrate agricultural investment funds, which have been used for different items and have not brought any obvious benefits, and if we can use such funds for more important projects, which can play a key role in economic and social development, the result will be much better than the pepper-dusting way of investment. Our Huiyang County receives every year from the provincial financial institution an agricultural investment fund of 29 million yuan (not including the agricultural administrative fund and one-time appropriations). Except for 20 million yuan, which are necessary for earmarking funds for one specified purpose, there is still almost 10 million yuan remaining. If we can use this amount of money flexibly and follow

the principle of optimal choice, so that we can invest large amounts of money in more important projects, every county could then establish certain important projects; with other measures, we can expect that after 8 or 10 years of hard work all counties in our region will change a lot for the better.

Some people have said that quotas of agricultural investment are set according to a well-thought-out, balanced plan and any optimal choosing of uses will destroy the principle of earmarking funds for specified uses and thereby will break the balance in the investment. We hold that this point of view is incorrect. We say that the quotas of the agricultural investment budget, except for investments for productive construction projects, which are planned on the base of prior investigation, are set by some subjective method of calculation. The suggestion for flexible uses of specially allocated funds suits more the needs of economic development and keeps a more active balance. We do not negate the principle of earmarking funds for specified purposes only, and our suggestion is that the regional administrations and the county administrations select optimally planned projects and use specially allocated funds to further such important projects in order to make a greater benefit. In the present reform for a simplification of administration and for the transformation of power to the lower levels, we hope that the administrations in charge of budgets will consider this suggestion and allow the regions and counties to have the right to use the budgeted funds for better purposes. Let us use our agricultural funds, which are very limited, for more correct and more effective purposes.

12715  
CSO: 4006/68

FINANCE AND BANKING

PROBLEMS WITH BANK LOANS DISCUSSED

Guangzhou NANFANG RIBAO in Chinese 16 Oct 84 p 2

[Article by Fan Yijin [5400 0110 6930] and Wang Xuling [3769 2485 3781]:  
"Bank Makes Loans Available, But Enterprises Do Not Want To Take Them:  
This Abnormal Situation in Technical Reform Should Be Resolved Immediately"]

[Text] During our recent tour in Guangzhou we learned that 222 enterprises in the city have been designated for technical transformation and those enterprises need 297 million yuan for this purpose. For this reason banks have made available sufficient money. However, in the first half of 1984 the enterprises slated for technical transformation borrowed only 80 million yuan, and only 15 technical transformation projects were completed.

It was said that this kind of situation had existed in Guangzhou for many years. One-hundred sixteen projects were included in the technical transformation plan for 1981, and the planned investment was 130 million yuan; in fact, it used only 79 million yuan and completed only 67 projects. In 1982, the city had planned 115 technical transformation projects with a planned investment of 169 million yuan; in fact, it used only 100 million yuan and completed 54 projects. Last year, there were 142 planned projects with a planned investment of 190 million yuan, though 110 million yuan were used and 35 projects were completed.

Technical transformation in Guangzhou is mostly dependent on bank loans. However, in recent years, the capital planned for technical transformation was not used completely. The bank could not use its loan funds and the enterprises were reluctant to take loans from the bank. Why? With this question in mind, we visited some enterprises in Guangzhou. Some enterprises said: "We do not make much money by taking loans for technical transformation. Why should we risk it?" We also visited the research office of the municipal government, which agreed with the enterprises' point of view. In the past few years, there has not been a beneficial policy for technical transformation. The first problem was that after an enterprise is remodeled by using a bank loan, the profit that was made afterwards was not divided very reasonably. For a time the policy in effect allowed the enterprises to accumulate profits, then to repay the loan and interest and turn over the profit later. This policy encouraged the technical reform, but it was not a consistent policy, it changed from time to time and it allowed

the accumulated profit to be lowered and lowered. The second problem was that remodeling an old enterprise involved a consideration of space and manpower, and sometimes the production process had to be partly stopped. This latter loss has not been considered large enough by the leading organization involved in industrial planning. This kind of loss can be compensated only by a beneficial policy toward the new production profit after transformation. There had earlier been a similar policy, but it was not clearly defined. It did not list every kind and brand of product and often caused arguments between the relevant units. All of this had a negative influence on the technical reform.

Another important factor that influenced the technical transformation of enterprises was that a reform faced too many obstacles and the procedure was too complicated. For example, if something had to be imported for the planned remodeling, there were many bureaucratic formalities and prolonged delays in planning a necessary business trip to a foreign country, sometimes up to a year. Sometimes applications for investments, for permits and for purchases of land for a project took 3 years. This kind of complication and formality caused numerous problems. One of them was the long-lasting term of the loan, which put a heavy financial burden on the enterprises. The second problem was that the long waiting period delayed the competitive ability of an enterprise. For example, a plastics factory in Guangzhou found out that plastic sandals were a good sale item, so the factory took out a 6 million yuan loan to expand its production capability. To the factory's surprise the whole procedure took 3 years, so that when it started to produce the plastic sandals, they were already out of fashion and the factory did not make a profit.

At present, the installation and technology in many enterprises in Guangzhou are still at the 1950-1960 level, and some are even at the level of the 1930's and 1940's. These enterprises will be bankrupted by the strong domestic and foreign competition. Thus, a technical transformation of old enterprises is extremely urgent; there is no other way. In order to speed up their modernization, the relevant organizations in charge must take measures that will resolve the problems in the loan policies to enterprises. Some comrades of the industrial administration have made the following proposals: 1) local governments should put into effect a policy that will strongly encourage enterprises to seek loans for modernization and to make the policy stable. The relevant provincial offices have already made some regulations for the collection of capital to support technical reform and to enable enterprises to progress so that they can develop new products. The regulations should be further implemented. 2) Some products will have good sales and make a greater profit only after a technical transformation of the enterprises. For this kind of reform, the industrial organization and commercial organization must make a list of possible products, and then both organizations can discuss the payment amount and the interest on the loans. 3) An authorized head office should be established to regulate relationships between enterprises, simplify the complicated formalities and do away with arguments between the leading organizations in order to increase their work efficiency.

Another problem is that some managers of enterprises do not want to use loans to modernize their enterprises because of their own short-range strategic

viewpoint. Some of them do not correctly perceive the relationship of present to future benefits. They think that with existing installations and technology their enterprises can still survive without any technical reform. As a matter of fact, although enterprises have to pay a lot for technical transformation, it brings back a larger benefit in the future. An example is the experience of the Guangzhou General Shipping Company. In the past, the company had many worn-out ships. Its practical shipping business used only 60 percent of their ships and every year lost 140,000 yuan. In 1980, the company took a bank loan of 29 million yuan to repair their ships, which increased its shipping capacity many times. The company's income reached more than 28 million yuan. The company already returned to the bank 12.92 million yuan, or 43.6 percent of the total loan. This company's experience can be a model for other enterprises.

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FINANCE AND BANKING

SUCCESSFUL REINVESTMENT REPORTED IN HUNAN

Changsha HUNAN JINGJI XINXIBAO in Chinese No 26, 15 Sep 84 pp 1, 3

[Article: "Successes in Reinvestment of Fixed Assets in Hunan Province"]

[Text] Since our republic was founded, there have been big successes in the reinvestment of fixed assets in Hunan Province. From 1950 to 1983 the total value of invested fixed assets in the state-owned productive units was 30,119,000,000 yuan, including newly invested assets of 20,225,000,000 yuan. The latter value is 80.7 times higher than the original value of the assets in state-owned factories at the time when the country was liberated. Now the situation is as follows:

1. The installed-equipment level was elevated and the productivity was increased. The success in production brought about a great advance in the national economy. Investment in industrial construction in the past 35 years amounted to 24,083,000,000 yuan, which is 80 percent of the total investment. The value of newly installed equipment, tools and other facilities was 8,376,000,000 yuan, which is 27.8 percent of the total investment.

Industrial construction: Because of the newly installed equipment, the production of iron reached 1.1 million tons; also, 1,154,100 tons of steel, 1,318,000 tons of rolled steel, 925,000 tons of iron ore, 892,000 tons of dressed ore, 22,897,200 tons of coal, 1,119,500 tons of synthetic ammonia, 3,675,800 kW of installed capacity of electricity-generating sets, 3,236,500 cubic meters of lumber, 7,077,800 tons of cement, 500,000 pieces of cotton yarn spindles, 87,900 tons of machine-made sugar and 161,200 tons of machine-made paper and pulp board were produced. The provincial industry also produces mining machine sets, energy machines, machine tools, etc.

Agricultural construction: In the construction related to water conservation, 12,723 reservoirs were built, with a volume capacity of 15,397,000,000 cubic meters; with 376 irrigated areas, each of them larger than 10,000 mu; and with irrigation and drainage equipment with 4,020,800 horsepower. In addition, Dongting Lake was harnessed and has a greater capacity for storing floodwater.

Transportation and communications construction: In 1983, the province had 2,475 km of in-service railroads, 160 percent longer than the railroads were at the time of Liberation. In 1950, the province had 836 automobiles, and now it has 70,000. Long-distance telephone lines were extended to 12,445 pairs km.

Commercial construction: The cities and countryside of the province now have 386,000 retail stores, restaurants and service shops, all doing a brisk business. This is 142 percent higher than at the time of Liberation.

Engineering construction: The province has 352 state-operated or collectively owned construction businesses with 50,000 workers, as well as 71 surveying and design units with 17,400 employees. Since the time the country was liberated, the number of construction businesses has increased more than 11 times, and the number of surveyors and designers has increased 20.7 times. There are also many small construction teams operated by neighborhood collectives.

2. The province has improved the industrial structure of its economy, the structure of production, technology and the distribution of its productive power. It has also built a broad economic system. Before the liberation of the country, industry was quite backward. The total annual industrial output in the early years after Liberation was 17 percent of the total industrial and agricultural output. The main industries were handicrafts and repair services. The percentage of heavy industry was only 17 percent of the total. The province had imported large quantities of material for production and the means of subsistence.

In 1983, total industrial output reached 20,586,000,000 yuan, which is 64 times higher than in 1949, and 54.7 percent of the total industrial and agricultural output. The metallurgy, coal-mining and textile industries are now prospering. The province has now built up steel-rolling plants, automobile manufacturing, tractor, electronics, petrochemical and synthetic-fiber industries. They have also developed industry in the outlying districts and in the areas with minority nationalities in the province, so that the situation is changing and industry will not be concentrated in the cities.

3. The province has built schools, hospitals, sports palaces, municipal projects and houses, so the cultural and material lives of the residents are changing. In the last 35 years the province allocated 6,036,000,000 yuan for unproductive purposes; 3,292,000,000 yuan of it were allocated for the construction of apartments and houses. In the cities and towns and in the industrial and mining areas, houses were built with state money, with a total floor space of 40,893,800 square meters. From 1978 to 1983, the city administrations of the province built other houses and apartments with a total floor space of 1.71 million square meters. These new buildings and new private houses have changed the living conditions of the residents. The average per capita living space in 16 large cities in the province is now 5.4 square meters. In the province were also built 32 colleges and universities, 5,623 middle and high schools, 19,500 elementary schools, 24,170 kindergartens, 4,222 hospitals with 123,900 beds, radio stations, television stations, libraries, museums, movie theaters, stadiums, swimming pools, etc. The education, medical services and cultural lives of the residents have improved considerably.

FINANCE AND BANKING

WORKERS' LIVING STANDARDS IN HUNAN REVIEWED

Changsha HUNAN JINGJI XINXIBAO in Chinese No 26, 15 Sep 84 pp 1, 3

[Article: "Big Change in Workers' Lives in Hunan Province"]

[Text] Since our republic was founded, the lives of the workers in Hunan Province have changed in the following ways.

1. Increase in Employment and Decrease in Number of Beneficiaries

Since our republic was established, especially after the 3d Plenary Session of the 11th Central Committee of the Chinese Communist Party, more and more job opportunities have been created in our province, and employment has increased. A sample census from 1983 shows that the average number of working people per family reached 2.24 persons, an increase of 82.1 percent. The average number of beneficiaries supported by each employee decreased from 3.7 in 1957 to 1.72 in 1983.

2. Higher Salaries and More Income

The average monthly income per employee in a worker's family in 1983 was 66.59 yuan, which is a 58.2 percent increase from 1957, when the average monthly income per employee in a worker's family was 42.08 yuan. The average annual income per worker's family in 1983 was 501.48 yuan, which is a 190 percent increase over the year 1957, when it was 171.9 yuan. The number of families with an average monthly income per capita was more than 50 yuan, or an increase from 2.5 percent in 1978 to 23.9 percent in 1983.

3. Higher Consumption Level and Change in Consumer Goods

The per-capita expense of employees' families in 1983 was 492.72 yuan. This was 2 times higher than in 1957, when it was 164.5 yuan. Considering the fact that the prices of commodities increased for a certain period, the real rise in the consumption level in 1983 was 99.5 percent higher than in 1957. Meanwhile, the consumed items also changed. If 1983 is compared with 1957, the percentage of consumed food decreased from 72.4 percent to 63.8 percent; appliances increased from 10.4 percent to 17.7 percent; clothing increased from 11.9 percent to 13.7 percent; and fuel decreased from 5.3 percent to 4.8 percent. In food consumption, the percentage of high-protein, high-vitamin

and high-calorie food increased; in clothing, the percentage of purchased synthetic fabrics, wool and silk increased; in appliances, the percentage of purchased synthetic fabrics, wool and silk increased; in appliances, the percentage of purchased bicycles, wristwatches and sewing machines decreased, and that of purchased television sets, washing machines, cassette recorders and refrigerators increased. The amount of money spent for stationary, technical items, entertainment and games also increased.

#### 4. Floor Space of Housing and House Installation Improved

The average per-capita floor space of employees' families in 1983 was enlarged to 7.5 square meters, or 93.2 percent larger than the 3.9 square meters in 1957. The water supply and kitchenwares were also improved.

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FINANCE AND BANKING

IMPORTANT ROLE OF CONSTRUCTION BANK NOTED

Kunming YUNNAN JINGJIBAO in Chinese No 41, 8 Oct 84 p 1

[Article: "The Great Role of the Yunnan Provincial Construction Bank:  
"Successful Investment Allocation To Support Better-selling Products"]

[Text] On National Day in 1954, the Yunnan provincial branch of the Construction Bank was established. During the last 30 years, this branch bank, which has both investment and banking powers, played an active role in the national economy of our province.

Thanks to its development in the last 30 years, this provincial branch of the central bank now has its own cadre staff with economists, accountants and engineers, and also has 140 subbranches in all regions and counties of the province. The branch and its subbranches are allocating the investments for capital construction in the province. Because of the development of economic construction, the bank carries out more and more responsible tasks. Until the end of 1983, the bank provided investments in the amount of 23 billion yuan. With this money, fixed assets of a total value of 17 billion yuan were established and 5,000 industrial projects were built. The average daily allocation in 1984 was equivalent to the total allocation for 5 months in 1952.

In the last few years, this provincial branch of the Construction Bank made more deals, that have allowed more allocations for capital construction, made efforts to provide loans for the establishment of fixed assets, supported the construction of the Tri-poly-phosphoric-acid Sodium Factory and the Yuntian Chemical Plant and promoted the growth of preferential tobacco, sugar and tea products in our province. In the meantime, the bank investigated 86 large and middle-size projects, which have been put into operation. It also checked out important surveying plans and energy-saving measures. The bank also conducted practical research, worked out technical and economic models based in this research and submitted estimates for a dozen or so tentative projects. These activities have elevated the degree of accuracy of investment planning and have helped assure on-time project completion.

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FINANCE AND BANKING

NO PRICE INCREASE FOR HIGH-GRADE DURABLE GOODS

Nanjing XINHUA RIBAO in Chinese 9 Nov 84 p 3

[Article: "Prices for High-grade Durable Consumer Goods Will Not Go Up in the Future, According to A Responsible Person of the State Price Bureau in An Interview with XINHUA RIBAO reporter. Those Who Hiked Prices At Will in Violation of Regulations Will be Severely Dealt With, Certain High-grade Consumer Goods in Great Demand May be Sold in Advance"]

[Text] In an interview with a responsible person of the State Price Bureau today on the question of the price of high-grade durable consumer goods with a XINHUA RIBAO reporter, the following topics were discussed:

[Question] It is heard in the market recently that the price for television sets, video recorders, refrigerators and other high-grade durable consumer goods may go up. Is it true? Can you comment on that?

[Answer] The production of high-grade durable consumer goods in our country is still in a developmental stage and the production cost remains quite high, the price therefore tends to lean toward the high side. With the development of production, increase in output and reduction in production cost from now on, the price will drop gradually and will not rise.

[Question] Some units are found to have raised the price of high-grade durable consumer goods at will, how are you going to cope with it?

[Answer] The State Price Bureau has recently issued a circular calling on price departments and responsible business departments in various localities to tighten price inspection and supervision and severely deal with those who hiked price at will in violation of regulations. No one should be allowed to raise price at will by taking advantage of the reform to disrupt the socialist market and undermine the interests of the state and the consumers.

[Question] Some people wish to buy certain high-grade durable consumer goods which are in great demand but the market is temporarily out of stock, can the commercial departments make advance sales?

[Answer] It is understood that commercial departments in some cities are getting ready to promote advance sales of certain high-grade durable consumer

goods in a planned manner and based on the supply of goods. This will be conducive to satisfying the consumers' needs and also helpful to organizing production and supply in a planned way. Industrial departments where conditions are ready may also embark on advance sales of certain high-grade durable consumer goods.

[Question] Based on what price will the high-grade durable consumer goods be sold in advance?

[Answer] It will be based on the current retail price. However, since a consumer making advance purchase of certain durable consumer goods has to put a deposit in advance, interest (at a monthly rate of 1.5 percent), which a commercial department is getting from its bank deposits, may be added to the partial advance payment by a customer to cover the interest earned from the time when deposit payment was made to the delivery of the item purchased so as to offset the balance of the payment in order to safeguard the interest of the consumer.

[Question] What if the price drops after a payment was made and before the item is delivered?

[Answer] During the advance sales period, if the state lowers the price, the consumer will not suffer. The price of the high-grade durable consumer goods affected by the price drop will be computed on the basis of the reduced price.

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FINANCE AND BANKING

PROBLEMS CONCERNING LARGE INCREASE IN SAVINGS

Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese No 5, 20 May 84 pp 41-44, 48

[Article by Li Nanfeng [2621 0589 1496] of the Financial Research Institute of the People's Bank: "A Few Problems with the Large Increase in Savings"]

[Text] In the past few years, the savings of urban and rural citizens have continued to increase greatly. This situation has elicited the close attention of economic workers, and I will put forth my own views.

The savings of urban residents increased by 7.04 billion yuan in 1979, 11.85 billion yuan in 1980, 12.42 billion yuan in 1981 and by 15.17 billion yuan in 1982. In 4 years there was a total increase of 46.48 billion yuan, a 1.2-fold increase compared to the 21.06 billion yuan increase in the previous 30 years. In the first 10 months of 1983, the savings of urban residents increased by 12.2 billion yuan, and it is estimated that the increase for the entire year will total 13 billion yuan, a 40 percent increase compared to the year before. At the same time, some light industrial consumer goods and textile goods on the market are greatly overstocked and unmarketable. Therefore, some people feel that the large sustained increase in savings has hindered the expansion of consumption, has created a situation whereby goods are overstocked and unmarketable and has affected production. I disagree with this view.

I feel that there are three reasons why some light industrial consumer goods and textile goods on the market are overstocked and unmarketable at the present time: first, the rate of increase in commodities exchange is slow, quality is low and the unmarketable variety of color, designs and structure of commodities production do not suit the structure toward which the purchasing power of the broad masses of people is trending. Second, channels for commodities exchange are blocked, commodities do not have enough freedom, and this is especially true with most rural markets which have not opened up enough. Third, the prices of a few commodities are on the high side. In the past, the main contradiction of the market was whether or not there were enough commodities and the problem of whether

there was enough quantity; we only needed to expand the production capability of light industry and the textiles industry and increase output to solve this problem fairly quickly. Currently, the main contradiction of the market has changed to whether the goods are of high quality and economical, and to the short popularity cycle of products and the increased frequency of improving and updating. This is not a problem that can be solved by merely expanding production capability and increasing output: we must quickly promote new products that perform well, are new and original, look nice, have economic benefits and that have many uses to replace those old products that have been the same for 10 and 20 years.

For a long time, because of "leftist" errors in economic construction, we developed heavy industry in a one-sided and isolated manner and pressed light industry. The result is that most of the equipment of light industrial and textile enterprises is old, their technology is backward, their funds are insufficient and their space is confined. This seriously affects the smooth carrying out of the improvement of the quality of light industrial consumer goods and textile goods, the lowering of costs and the acceleration of commodities exchange. Thus, with regard to the work of banks, the starting point for solving the problem must be placed on the ability of the banks to readjust the technological, production and commodities structure of light industry and the textiles industry, to strive to improve the quality of enterprises and to meet the needs of the market. We must change from our habit of the past few years of stressing expanded production capability and increased output of light industry and the textile industry to emphasizing technological transformation and the replacement of equipment of light industry and the textile industry and lay a solid material and technological foundation for improving product quality, lowering costs and consumption and reducing the period of commodities exchange of light industry and the textiles industry. At the same time, we must help light industry and textile enterprises to understand the market, comprehend information, draw up plans based on market needs and changing trends, plan production, increase, decrease and limit production appropriately, strive to develop new products of many varieties, colors, sizes, designs and of varying quality and meet the ever-changing consumption needs of the masses.

I have said that the growth of savings is not the main reason for the overstocked and unmarketable commodities on the market, but this does not imply that I completely deny that increased savings have no effect on expanded consumption and is not to say that the growth of savings should not have an appropriate macroscopic controlling limit. Under different economic conditions and in not making a specific analysis, we generally feel that the more savings the better; not laying stress on appropriate research and control of savings can affect and hold back the phenomenon of expanded consumption. This is something that we must strive to avoid.

Marx's theory of reproduction explains that the process of social reproduction includes production, distribution, exchange and consumption--links which are closely connected and which interact. If a problem occurs in one link it will affect the smooth carrying out of the entire process of reproduction. With regard to the relationship between production and consumption, "Without production, there is no consumption. However, without consumption, there is also no production because production has no goal." ("Selected Works of Marx and Engels," Vol 2, p 94) Marx says here that production determines consumption, and consumption also reacts to production: there is a dialectical relationship between production and consumption. Developing savings is an important means used by the state to accumulate funds, and accumulation is also a source for expanded reproduction. In fact, the relationship between savings and consumption is the relationship between production and consumption. If we make a static analysis, people's income during a certain period is always fixed. An increase in savings means that consumption must decrease, and an increase in consumption also must affect savings. The two interact and cancel each other out. However, if we analyze the situation from a dynamic and developing viewpoint, our current savings are for even greater and better future consumption, and savings can promote and expand consumption. We need only to competently arrange the relationship between the two and have appropriate policies and measures and we can form a benign cycle of increased savings--expanded production--increased revenue--increased consumption and savings.

We cannot depart from the specific social economic situation when discussing the relationship between savings and consumption, and we must specifically research the situation under which we must increase savings and expand consumption. We must also determine the type of savings that we must increase and the type of consumption that we must expand. China's savings policy should not be set in concrete for a long period of time but should be promptly adjusted based on the different circumstances and different needs of each period of economic development. When production capabilities are insufficient and commodities are in short supply, we must draw a little of our savings, use consumption funds in commodities investment, support an expansion of the scale of production and circulation and meet the needs of society and the market. But when production is developing rapidly, the market is clearly improving and commodities are in ample supply, we must appropriately encourage and stimulate consumption, expand the proportion of consumption funds used for current consumption and transform a portion of savings into consumption funds; this is even more urgent because the promoting effect which expanding consumption and increasing purchases have on production is even greater and more direct than the effect which expanding accumulation has on production.

For a long time in both China and a few socialist countries, savings funds were excluded from the realm of accumulated investment and could only be used in two special projects: first, in balancing the difference

between social purchasing power and the volume of commodities supply; and second, as circulating fund loans for industrial and commercial enterprises. When considering the problem of accumulation and planning the rate of accumulation, we are accustomed only to referring to the accumulation portion and we equate the socialist rate of accumulation to the proportion accumulated from revenue. Up until today, this type of understanding holds an irrefutable place in the minds of a few comrades.

We must have accumulation funds if we want to expand reproduction. There are two types of accumulation funds in China. One type is the funds that are accumulated: We consider the portion from national revenue as additional funds, expand the total amount of funds accumulated by society and use this for economic construction. This type mainly carries out the redistribution of national revenue through financial channels, and we determine a certain proportion of accumulation funds from revenue based on need and possibility. The other type is centralized funds: Under the circumstances of the distribution and redistribution of national revenue having already been carried out and the proportion of accumulation and consumption having already been determined, we fully mobilize and concentrate all kinds of society's dispersed, unused and surplus funds mainly through the special measure of bank credit, we change the organizational state, proportion of distribution and direction of investment of these funds, change consumption funds into accumulation funds, enlarge the amount of social accumulation funds and use them in production and construction. The accumulated funds can be called the portion that is directly accumulated; the centralized funds are then the portion that are indirectly accumulated. Direct accumulation plus indirect accumulation makes up all of China's accumulation funds.

For a long time because of many different reasons, we always concentrated our attention in solving problems with production and construction funds on raising the proportion of direct accumulation through financial channels, and we seriously neglected the important role of banks in socialist accumulation and rarely thought about regarding the use of bank savings to carry out direct accumulation necessarily as an additional problem for indirect accumulation. Before 1978, China always maintained a fairly high rate of accumulation. China's level of social productivity was fairly low and the national economy's rate of increase could not be too high. Under these circumstances, accumulation that has been too high has resulted in a rate of consumption that has been too low, has caused the people's level of well-being to rise slowly for a long time, has gone against the goals of socialist production, thwarted the enthusiasm of the masses and left many outstanding accounts. We must earnestly remember this lesson.

Through the effect of bank savings, we can convert a portion of consumption funds into accumulation funds and so meet the need for production and construction funds. Most comrades approve of this. However, are there or are there not conditions for this type of transformation of funds? Or to put it another way, are savings that are transformed into investment for production and construction restricted by social economic conditions, and what social economic conditions are they restricted by? A few comrades feel that savings are an important source of bank credit funds. An increase in savings and an expansion of the source of bank credit funds can certainly increase the amount of credit funds that are circulated. There will be no problems as long as the use of credit funds does not exceed the source of credit funds. I feel that this understanding is not appropriate. I am afraid that comrades with this understanding only pay attention to the problem of controlling and balancing the total amount of credit funds in circulation and ignore the problem of controlling and balancing the structure of credit funds in circulation. Under the conditions of a socialist system of public ownership and under a planned economy, it is not difficult to control the amount of credit funds in circulation. The work that is really more difficult and that requires a lot more effort is how to maintain a balance in the structure of credit funds put into circulation. Completing this work is the key to transforming savings into investment for production and construction. From an analysis of the actual situation, I feel that in this transformation we must pay particular attention to the problem of balancing the structure in these few respects.

1. We must pay attention to the balance between transformation and the conditions for the composition for social goods and materials.

When analyzing how to transform surplus value into capital, Marx pointed out that surplus value accumulated in the form of currency must be considered as capital that is to be put into production, and it must have the prerequisite that this currency can be considered to be a key factor of production capital, and a key factor of this production capital is also the commodities that we can purchase on the market. "Therefore, currency in one respect can cause expanded reproduction in another respect, and this is because the possibility of expanded reproduction already exists under the condition of there being no currency. This is because currency itself is a key factor in actual reproduction." ("Das Kapital," Vol 2, p 552) Whether or not we can transform savings and the extent to which we can transform savings into investment in production and construction does not at all depend on the objective wishes and demands of people but depends on whether there are additional material goods in all of society and depends on whether the composition of these material goods is the same as the composition of investment of credit funds. If we lack all the means of production, energy resources and transportation capability, we still want to transform savings into investment in production and

construction, and this will intensify the shortage of the means of production, energy resources and transportation, will affect normal social economic order, overextend the front of capital construction and diminish investment results. Problems of this kind have already appeared in economic well-being, and we must take warning.

Since the Third Plenum of the 11th CPC Central Committee, in the readjustment of the national economy and the restructuring of the economic system, the main role of the bank in the national economy has been given fairly good play. The scope of bank credit activities has already broken through old conventions of the past. The scope of bank credit has expanded from the realm of floating assets to fixed assets, has extended medium- and short-term equipment loans, and overall the results have been good. But under the circumstances of our energy resources, transportation and means of production being in short supply at the present time and in the near future, the proportion of savings used in fixed assets investment must be strictly controlled. The departments, areas and enterprises in which these funds are invested must definitely make plans by proceeding from the overall picture of the national economy and must make penetrating and meticulous investigative studies and extremely reliable feasibility studies. They must strictly investigate the material ensurance conditions for each loan project, not leave any gaps and earnestly ensure that funds and materials are closely integrated.

Currently, we do not have a sufficient amount of a number of materials; we have a particularly short supply of the means of production, and this has caused objective restrictions to be placed on the transformation of savings to funds for production and construction. These restrictions, however, are not absolute, and we must treat this problem in an analytical manner. Many goods and materials are interchangeable. Some materials are in short supply while others are overstocked, and we need only to carry out a rational adjustment and the necessary processing and handling throughout society to turn things into good account. In the past few years, China has had a large trade surplus and foreign exchange reserves have continually increased. We must use this foreign exchange. For key equipment that is in short supply domestically and for a number of material goods, we can use foreign exchange to appropriately expand imports and carry out balancing and planning.

## 2. We must pay attention to the balance between transformation and structural conditions for market needs.

Commodities production and commodities circulation still exist in socialist economies. There is a problem with whether or not we can realize and how we can realize the value and use value of commodities produced by factories. This requires that we earnestly analyze the market situation and market capacity and fully consider whether or not

the increased production of commodities that are a result of the transformation of savings to production investment meet the needs of society and whether or not they have a sales market.

For a long time, because of errors in the guiding ideology of economic work, we only paid attention to the rate of development of production, did not stress economic results and did not attach importance to research on market problems. Large amounts of overstocked and unmarketable goods as well as worthless materials existed in production and circulation, and losses that were covered up were fairly serious. Even today the tendency still exists in a few areas and enterprises of only caring about production and disregarding results. Enterprises continue to waste the funds and labor of society by "borrowing, producing and overstocking" a few unmarketable goods with out-of-date styles, rigid varieties and colors, that are of low quality and high cost and that are not needed on the market. The reason that this phenomenon keeps on occurring without being resolutely redressed, excluding other reasons, is that in an inspection from the viewpoint of bank work, many comrades were found to have overlooked the problem that the transformation of savings to production and construction investment is restricted by the composition of market needs and the problem that the investment composition of credit funds is the same as the investment composition of the purchasing power of the masses' market. This requires that comrades engaged in bank work keep their eyes open, use keen thinking, keep the entire situation in mind and stress research of the economy, analysis of the market and a comprehension of the situation. What should credit funds support and how should they support? What should they restrict and how should they restrict? They should not rely on subjective imagination but should only rely on the needs of society and the market and earnestly do a good job at balancing the investment structure for transferring savings into investment with the composition needed by the market.

### 3. We must pay attention to the balance between transformation and the structural conditions of savings.

We all know that there are different types of savings and they can be divided into the two large categories of current fixed savings. Fixed savings are also broken down into 1-year, 2-year, 3-year, 5-year and 8-year categories. Thus, on the basis of analyzing the structural conditions of savings, we must arrange the use of loans according to the different types, time restrictions and amounts respectively. Current savings are short-term funds, they can be drawn on at any time, should only be used in short-term floating assets loans and should not be used for long-term loans involving fixed assets. Otherwise, short-term funds that are being used over a long period of time will not be able to be promptly returned to the bank, will affect the ability of the bank to pay off debts, will create a situation whereby the banks are issuing bank notes beyond what they can economically handle and will

cause credit inflation. Certainly, current savings are savings that are drawn on while the bank keeps the funds, the cycle repeats itself, and except for special circumstances, a relatively stable and lowest possible sum will always be maintained, and this sum can be used in fairly long-term loans.

In China's credit funds structure, there are mainly three sources of long-term funds: first, the fixed savings portion of savings; second, the banks' own funds; and third, currency issued by banks. From the viewpoint of the situation of the balance of credit revenue and expenditures, by the end of 1982, from these three sources of funds, excluding credit funds that have already been used for a long time (such as long-term funds used for loan overdrafts, foreign exchange loans, price differences from foreign exchange that was lent and is to be repaid at a later date and for loans involving floating assets), there are only a little more than 10 billion yuan in credit funds that we can use for medium- and long-term loans, and these funds also cover key construction funds for which banks must also be responsible. It is clear from this that compared to the economic responsibility that banks must assume, sources of funds for long-term loans are in short supply. Banks must uphold the principle of keeping expenditures within the limits of income, appropriately arrange medium- and long-term loan projects based on their own sources of long-term funds, leave alone the necessary reserves and so handle the urgent situation. Otherwise, if the use of long-term funds exceeds the sources of long-term funds, a situation will be created whereby bank notes are issued beyond what is economically feasible and this will have a harmful effect on the stability of the national economy.

#### 4. We must pay attention to the balance between the transformation and the revenue situation.

In the past few years, the large increase in bank savings has occurred at the same time as the consecutive years of deficits. We must guard against this situation. Deficits appearing in revenue and expenditures indicate that the national income has been overdistributed and that a definite disparity exists between the volume of goods supplied and the purchasing power of society. If we take out a loan from the bank to make up deficits and allocate these funds to units, and if the units then deposit the funds into savings accounts, these funds then become a false source of savings funds. If banks reinvest these funds they will be creating the phenomenon which people call "false savings and real loans" and will cause credit inflation to the point of inflation. Thus, we must make a specific analysis of this increase of bank savings from the past few years. This increased savings from the past few years can be said to be a false source of savings. Putting these funds into circulation is like "one woman with two spouses" and clearly has no factual basis. Yet denying that banks really have a false component in their increased savings because they have been affected by deficits in the past few years is not a practical and realistic attitude. The

correct method is to compare the year's increased savings with the total deficits. If the amount of the year's increased savings is smaller than or equal to the year's total deficits, these most likely are false savings without any material guarantee and cannot be used to grant loans. If the year's increased savings exceeds the net deficits, the extra portion is real and is a material guarantee and can be used to extend credit.

12437  
CSO: 4006/727

MINERAL RESOURCES

PRODUCTION OF PHOSPHATE RESUMED

Wuhan HUBEI RIBAO in Chinese 28 Oct 84 p 2

[Article: "Yaozishan Phosphate Mine Has Resumed Production by Taking the Situation As A Whole into Consideration, Stressing on Unity and Enhancing Friendship Between the Mine and the Brigade"]

[Text] The Yaozishan phosphate mine in Yicheng county which was forced to stop production for as long as 2 years due to a dispute between the mine and a production brigade has resumed production on 20 September and turned out nearly 100 tons on the same day.

The extraction district of the state-operated Yaozishan phosphate mine in Yicheng county is located inside the Liuwan brigade in Wangji village under Huji district of Zhongxiang county at the intersection of Yicheng and Zhongxiang counties. The construction of this mine was approved by the province in 1966 with the state investing 3.04 million yuan over a period of time. It had been turning out 50,000 tons of ore annually and delivered tax instead of profit to the state in the sum of 300,000 yuan each year. While the phosphate ores were selling well in 1980, some peasants of the Liuwan brigade forced their way into the mine and extracted the ores indiscriminately; they even raked up the rails and blocked up the alleys. In September 1982, some peasants dynamited the highway used for transporting the ores out of the mine and forced the mine to stop production for as long as 2 years thereby causing a direct economic loss of 1.6 million yuan.

On 20 September last year, the provincial people's government handed down a document for specifically solving the contradictions of fighting for natural resources between the two counties. But this issue dragged on time and again as no unanimous decision could be reached between the two sides through consultation. On 22 August this year, while conducting an investigation in Xianfan city, Shen Yinluo [3476 0936 3157], deputy secretary of the provincial CPC committee, looked up the responsible comrades of Yicheng and Zhongxiang counties and asked these two counties to talk things over and resume production as soon as possible. Shortly afterwards, comrade Shen Yinluo again sent a responsible comrade of the provincial petro-chemical department to help solve specific problems on-the-spot. On 10 October, an agreement was reached between the mine and the brigade and the peasants from the Liuwan brigade pulled out completely from the mine. Under the agreement, the Yaozishan phosphate mine

19 March 1985

## FINANCE AND BANKING

## BRIEFS

ADJUSTMENT OF BANK INTERESTS NOTED--The problem of interest for the bank savings of individual households, a problem ignored by the financial organizations, has been resolved. The Chinese Industrial and Commercial Bank decided that, starting from 1 January 1985, the interest rate for individual household accounts deposited in business accounts will be raised from 1.5 percent to 2.4 percent. This rate is equal to the interest rate for current savings accounts in savings banks. For convenience in counting interest, the Yunnan Provincial Industrial and Commercial Bank decided to move the effective date to 21 December 1984 (the day the bank counts interest) in all its branches and subbranches in Yunnan Province. [Text] [Kunming YUNNAN JINGJI BAO in Chinese No 42, 15 Oct 84 p 3] 12715

CSO: 4006/84

will give the Liuwan brigade 27 tons of phosphate fertilizer yearly as compensation and also compensate the Liuwan brigade for the ores computed at a ratio of 12 percent of the ores from the first and third layers that went through the weighing scales during the current year. Moreover, the loading of the ores will be done by peasants of the Liuwan brigade. The mine will make available five trucks for the Liuwan brigade to transport the ores and also arranged to have 40 contract workers from the Liuwan brigade who will work in rotation in the mine.

Wang Dege [3769 1795 7041], a party branch secretary of the Liuwan brigade, said: "The dispute over trifles in the past 2 years has brought losses to the state, the mine and the brigade and it grieved me whenever I thought about it. In future, whenever a problem comes up, we should talk it over by mutually accommodating each other so that the problem can be solved at the grassroots level." Sun Dexing [1327 1795 5281], party branch secretary of the Yaozishan phosphate mine, said: "We must strengthen ideological education among workers and staff members and achieve mutual understanding so as to enhance the friendship between the mine and the brigade."

12662  
CSO: 4006/166

CONSTRUCTION

ACCOMPLISHMENTS IN CONSTRUCTION INDUSTRY OVER 35 YEARS

Beijing JIANZHU in Chinese No 8, 7 Aug 84 p 13

[Text] 1. The total output value is 1,013,400,000,000 yuan.

Prior to the 3d Plenary Session of the 11th Central Committee (1949-1978):  
611 billion yuan.

Since the 3d Plenary Session of the 11th Central Committee (1979-1983):  
402.4 billion yuan.

2. The total floor space of completed buildings is 2,732,180,000 square meters.

Prior to the 3d Plenary Session of the 11th Central Committee:  
1,858,288,500 square meters.

Since the 3d Plenary Session of the 11th Central Committee:  
873,891,500 square meters.

3. Completed floor space of residential buildings in cities and towns is  
927,070,000 square meters.

Prior to the 3d Plenary Session of the 11th Central Committee:  
531,720,000 square meters.

Since the 3d Plenary Session of the 11th Central Committee: 395,350,000 square meters.

4. Large and medium-size industrial projects completed and put into operation (1953-1983): 3,817 projects.

Prior to the 3d Plenary Session of the 11th Central Committee: 3,321 projects.

Since the 3d Plenary Session of the 11th Central Committee: 496 projects.

12715  
CSO: 4006/68

CONSTRUCTION

NEW ADVANCE IN CAPITAL CONSTRUCTION DESCRIBED

Guangzhou NANFANG RIBAO in Chinese 31 Oct 84 p 3

[Article: "New Chinese Advance in Capital Construction in 1984; 22 Percent Increase of Investment Over 1983; Investment in Shenzhen, Zhuhai, Shantou and Xiamen Increases 2.2 Times"]

[Text] According to statistics of the National Statistics Bureau, in 1984 capital construction in China achieved an advance. Engineering on selected projects was speeded up and relatively weak areas of the national economy--transportation and energy construction--were strengthened.

A source reported that the reform in the managing system of engineering and capital construction has developed quickly. In the construction business, many kinds of reform methods, such as the "100-yuan plus bonus salary system," the investment package system and the bidding-contract system, are widely popular and are generally practiced. All these methods have speeded up the process of construction. From January to September 1984 the state-owned units have completed capital construction investments to the value of 40.7 billion yuan. This amount is 19.9 percent higher than the amount for the same period of 1983. A tentative estimate made by the National Statistics Bureau shows that the total amount of capital construction investment in 1984 was 22 percent higher than in the previous year. Besides, a new advance was reached in the Shenzhen, Zhuhai, Shantou and Xiamen special economic zones. The value of completed capital construction in the first 9 months of 1984 was 2.2 times higher than in the same period in 1983. A source reported that in the 9 months of 1984, 20 large and middle-size projects and 38 single-unit construction projects were built and put into operation. Newly installed mining equipment had a capacity of 3.49 million tons, newly installed oil extracting equipment had a capacity of 9 million tons, newly built and operating railroads had a length of 1,100 km and newly built houses and apartments had a floor space of 36 million square meters.

12715  
CSO: 4006/84

## CONSTRUCTION

### LIANYUNGANG HARBOR CONSTRUCTION DISCUSSED

Nanjing XINHUA RIBAO in Chinese 1 Nov 84 p 1

[Article: "Construction of Four Key State Projects in Lianyungang Harbor Is Being Stepped Up" --The System of Economic Contract Responsibility for Capital Construction Has Been Promoted in An All-round Way to Arouse Enthusiasm for All Quarters"]

[Text] In building the four key state projects, Lianyungang city, Jiangsu province, has achieved notable results in controlling the building cost, ensuring construction quality and raising comprehensive economic results with the implementation of the economic contract responsibility system that combines responsibility, power and interests in an all-round way.

The construction projects in this city listed under the state plans are: the expansion project for the new and old harbor districts in Lianyungang, the Lianyungang soda plant project, the Donghai serpentine mine project and the track-altering project in the Lianyungang section of the east Longhai Railroad. To ensure smooth progress in the construction of these key state projects, construction units undertaking these four projects, including the Lianyungang harbor construction headquarters, the Lianyungang soda plant contract company, the preparatory headquarters for the construction of the Donghai serpentine mine and the fourth section of the second bureau of the Ministry of Railways, have implemented such measures as investment contracts and contracts through public bidding in an all-round way by proceeding from reforming the methods of management over capital construction and with land requisition and disassembling and relocation to be in charge by the local government thereby arousing the enthusiasm of all quarters concerned.

The dredging project is one of the key projects in Lianyungang harbor construction and the amount of mud-dredging for the construction of coal wharves this year comes to 4.38 million cubic meters, it is a rather arduous task. The harbor construction command and the fourth section of the Shanghai shipping channel bureau has signed a budgetary estimate contract under which a bonus will be awarded for fulfilling a project ahead of the time limit for the construction with about 50 percent of the bonus to be directly distributed to workers and staff members. With the implementation of this measure, the crew, braving winds and storms in construction, managed to fulfill the mud-dredging plan for the year 180 days ahead of schedule with the quality of work meeting the standards prescribed in the plan.

Lianyungang has won the support of various quarters throughout the city in implementing the investment contract system and the system of economic contract responsibility by means of public bidding in the construction of the key state projects. The city CPC committee and the city government have established a leading group overseeing key projects and also set up an office which is joined by two vice mayors and engineering and technical personnel to coordinate and solve all types of problems that require mediation by the city and the neighborhoods; they are to implement "six priorities" with regard to prospecting and designing of key projects, organizing construction forces, overseeing land requisition and disassembling and relocation, "three openings and one levelling" and the supply of goods and materials and so forth. They will call responsible persons of departments concerned to discuss and solve contradictions and problems whenever they emerged in the course of construction. For example, the soda plant project and the track-altering project originally designated the Huagaishan area in Zhongyun village for requisition as a source of earth which will occupy over 4 million mu of farmland and orchards and greatly deprive the local people of their earnings. To cope with this situation, the city and the neighborhoods especially organized comrades of various units concerned to conduct an on-the-spot investigation and it was later decided that a tract of wasteland in Chaoyang village should be requisitioned instead as in this way it will protect the interests of the people and at the same time ensure smooth progress of these two projects.

12662  
CSO: 4006/166

DOMESTIC TRADE

SECOND PHASE OF STRUCTURAL REFORM OF ECONOMY DISCUSSED

Beijing LIAOWANG [OUTLOOK] in Chinese No 43, 22 Oct 84 p 1

[Editorial: "The Second Phase of the Structural Reform of China's Economy"]

[Text] The masses see that the Third Plenum of the 12th CPC Central Committee has ended victoriously. Everyone enthusiastically cheers the satisfactory outcome of the meeting.

At the same time that the Third Plenum of the 11th CPC Central Committee decided to switch the emphasis of the entire party's work over to socialist modernization, it pointed out that there existed several shortcomings in our country's system and methods of economic management, and that we must begin sincere efforts to reform. After that meeting, reform was carried out primarily in the rural areas. Each area liberated its thinking and confidently smashed the fetters of "leftism," and changed their methods that were not suited to the development of agricultural productivity. They fully promoted the agricultural responsibility system, enabling China's socialist villages to demonstrate their strong vitality, and achieved great results in carrying out reform.

If we are to say that the Third Plenum of the 11th CPC Central Committee, which was held 5 years ago, succeeded in calling forth the first stage of China's structural reform, then it can be said that the Third Plenum of the 12th CPC Central Committee succeeded in calling forth the second stage of reform. The emphasis of the first stage was rural reform, and the emphasis of the second stage is urban and structural economic reform.

The achievements of structural reform of the rural economy have already enabled China's agriculture to begin developing toward specialization, commoditization and modernization. These changes created an urgent demand for the establishment of circulation channels between the cities and the countryside, in order that the constantly increasing volume of agricultural products could find new markets. It also created an urgent need for the cities to fulfill the peasants' ever-growing demand for industrial goods and scientific technology. The cities are economic centers, and under these conditions, if we do not

speed up the pace of urban economic reform and give full play to the role of the cities in the people's economy, then not only would it have an impact on the rural economy, but it would also have an impact on the resolution of many national economic problems.

At present, the economies of all nations face two challenges. The first is the great competitiveness of the world economy. Many people believe that the core of the world economy is now shifting to the Pacific. This is a challenge for the whole Pacific region, including China. The second is the rate of development of the new technological revolution, which has been much faster than anyone could have predicted, and all countries are facing growing or narrowing challenges. These challenges are both opportunities and advances for us. Only if we carry out overall reform of our economic system will we be able to make good use of these opportunities.

In the past few years, at the same time that we have carried out rural reform, we have also carried out a variety of experiments and investigations into urban and structural economic reform. We have had some achievements, and have accumulated a certain amount of experience, thereby facilitating the emergence of a dynamic situation in the economy that had not been seen in years. However, China's current economic situation has a number of shortcomings that have not yet been basically eliminated. The primary shortcomings are: management authority is still too centralized; there is not adequate separation of the functions of government and enterprises; primary reliance on administrative means in managing the economy; enterprises lack the autonomy that they should have; egalitarianism in distribution, and so on. In sum, the rigid model of management systems and methods that are unsuitable to the demands of socialist development but that have been place for many years has caused our socialist economy to lose its vitality, and has restricted the role of socialist superiority. Therefore, building a socialist economy that closely integrates basic Marxist principles with China's actual conditions, serves China's national situation, and brings full life and vitality to the economy are the fundamental tasks of urban and structural economic reform.

Strengthening the vitality of enterprises is the central link of urban economic reform. Around this central link, we must carry out the reform of the planning system, the price system, and the functions and wages of the economy managed by state organizations. Around this primary melody of structural economic reforms, we must develop a coordinated series of reforms in industry, commerce, service industries and S&T, and in education and culture. The first stage of economic reform has been that carried out so bravely by the 800 million peasants, and the second stage will be a great symphony, with many parts and even richer timbres and arrangements.

China's urban and structural economic reform is not a reform of the basic system. Based on the premise of upholding the basic socialist system, it is a reform of the relations of production and a rectification of the inappropriate development of productive forces within the superstructure to date. The extensiveness and degree of penetration of these reforms can be said to constitute a revolution, but this revolution is not a revolution based on class struggle. It is to be carried out through the socialist system itself, with guidance and in a gradual and orderly manner. It is a kind of self-renewal. The superiorities of the socialist system are located therein. Only if we uphold the principle of seeking truth from facts, and treat whether or not productivity is beneficial to development as the sole standard by which to test whether reform is successful, will we be able to keep from harming social stability, to keep from having a negative impact on improving the people's standard of living, and to keep from having a negative impact on the overall situation of the economy.

China's structural reform is a chapter of unprecedented magnitude. It can be foreseen that the day the second chapter demonstrates success, China's economy will certainly have been vigorously developed and will be ready to take off!

12582  
CSO: 4006/122

DOMESTIC TRADE

URGENCY OF STUDYING ELECTRICITY PRICING DISCUSSED

Beijing DIANLI JISHU [ELECTRIC POWER] in Chinese No 11, 5 Nov 84 pp 5-10

[Article by Xu Yongxi [1776 3057 4406]: "Symposium Discusses Electricity Pricing Issues"]

[Text] The special committee on kinetic energy economics of the Chinese Electrical Engineering Society held its first electricity pricing symposium in Beijing last March. About 70 people attended, including responsible comrades from departments concerned, writers on the problem of electricity pricing, technical personnel, and professionals from finance and accounting. They discussed and exchanged ideas on such topics as electricity price levels in China, and pricing policy and systems. We summarize below the academic viewpoints, research results and ideas presented at the seminar.

I. The Importance and Urgency of Studying Electricity Pricing

Economic reform, the new technological revolution, our policy of making the electric power industry a vanguard industry, and our objective of improving planning work--all require that we intensify the study of electricity pricing.

1. Pricing reform is an important part of economic reform: Since full-scale pricing reform is inevitable in China, we must closely examine and analyze the basis of electricity pricing and the direction of electricity pricing reform. Other questions are: How should electricity prices be adjusted after prices for other fuels are raised? In what ways would increasing electricity prices affect the prices of other commodities? From 1960 to 1982, electricity costs went up by 35 percent on average. In the same period, increases in prices and depreciation costs pushed up electricity costs by 38, 6 and 9 percent, respectively, or a total of 53 percent. It is only because of a drop in coal consumption, a decline in electricity consumption by plants and an increase in hydroelectricity, which reduced electricity costs by 12, 3 and 3 percent, respectively, that we have been able to trim the increase from 53 percent to 35 percent. It is unlikely that coal consumption and plant electricity consumption will decline substantially in the future. Nor is it likely that the share of hydroelectricity will be increased more than marginally. The prices of fuels are still on the low side and upward adjustment is inevitable. For all these reasons,

electricity price adjustment is a real problem that must be solved soon (see p 17 of Reference 1).

Pricing reform aside, economic reforms now underway such as replacing capital construction appropriations with loans and requiring enterprises to pay taxes instead of turning over profits, will also have an important effect on electricity prices. These reforms have been tried out in the electric power industry and proved useful in raising management standards and economic results. But further improvements and coordination are needed. For instance, given our present electricity prices and surplus, electric power enterprises are unable to meet loan repayments as scheduled. In determining their tax rate, we must take into account the ability of the enterprises to repay their debts.

2. To be an economic vanguard, the electric power industry requires an adequate supply of capital construction funds. Such funds basically come from what the industry itself has been able to accumulate. But since industry accumulation is at present at a very low level, we cannot rely on it alone to bring about the kind of expansion and reproduction that we need to meet all our electric needs. Therefore, a reasonable schedule of electric prices and profit levels is basic to ensuring a reliable source of capital construction funds.

3. Under our existing irrational pricing structure, the prices of commodities often have no relevance to their value. Because this deprives the planning and calculation of national output value and national income of a scientific basis, we must make the examination and adjustment of our pricing system an indispensable part of improving our planning. Prices should fluctuate with changes in production factors, the supply and demand situation, and evolving economic policies at the time. In drawing up a national economic plan, we should also formulate a price adjustment plan. China's average electricity prices have basically remained unchanged over the past 30 years. This must be adjusted soon. Henceforth, the adjustment of electricity prices, like the adjustment of the prices of other commodities, must be incorporated into the national plan.

4. The hallmark of the new technological revolution is the information revolution. Its basic goal is to increase social and economic results. Only if we do a good job in adjusting prices could we further assess and increase economic results in all industries and trades and effectively meet the challenge of the new technological revolution by making good use of information resources.

## II. Electricity Pricing Policy

A good electricity pricing policy demands that we skillfully handle the relations among the three parties: the state, electric power enterprises and electricity consumers.

1. The electricity pricing policy should expedite the realization of China's strategic objectives and, through the pricing mechanism, contribute to the

implementation of our energy policy and electricity development objectives. The electricity pricing policy should also be coordinated with economic and technical policies, including pricing, utilization of foreign funds, environmental protection, electric power equipment and plants, and the production and marketing of other related raw materials.

It is in China's general interest nowadays to end its widespread electricity shortages as soon as possible. If we can put the electric power industry on the right track, economic development will be well poised for take-off. This is a strategic measure for speeding up economic development. We must make electricity prices an incentive for groups and individuals to invest in the electric power industry. Hydroelectric prices should be fixed with regard to the investor's need to recoup his investment at regular intervals and to make a profit, which, in turn, will facilitate the accumulation of funds for the further development of the industry. Areas which lack resources for generating electricity should have an electricity pricing system which encourages conservation. In areas which have abundant hydropower resources or are temporarily hoarding electricity, prices should be lowered to make full use of the available electricity. A subsidy should be given to those industries which are electricity-intensive and have been operating at a loss for an extended period of time, provided they are allowed to continue production. They should not continue to enjoy preferential electricity prices. Such a change would help improve electric energy utilization results.

2. The aim of the electricity pricing system should be to help the industry rely on its accumulation to achieve expanded reproduction. This aim has two implications. First, electricity prices and accumulation in the industry should strive for that golden mean--neither too low nor too high. Underpricing encourages waste and leads to a shortage of funds in the electric power industry. Overpricing, on the other hand, will discourage all trades and industries from using electricity even when they should and encourage them to switch to other energy sources. Second, accumulation in the electric power industry should be plowed back into the industry for its own development and not be diverted to other purposes. This policy would do much to raise social and economic results.

3. Electricity is a commodity, the price of which should be based on its value. We must follow the principle of exchange at equal value. When the costs of producing electricity and the quality of electricity vary, the price of electricity should also vary. The electricity pricing policy should help eliminate equalitarianism in electric supply and allocate the total costs of electricity production rationally among its different kinds of consumers.

### III. The Level of Electricity Prices

Discussion on the level of electricity prices was focused on the following two aspects.

1. The theoretical basis for determining the level of electricity prices: Karl Marx pointed out many times that the value of a commodity is determined by the socially necessary labor time that goes into its reproduction (see Reference 2, pp 158, 448). Owing to deterioration in the conditions of reproduction in the electric power industry (for instance, elimination of old factories, the worsening production conditions of new electric plants, rising construction costs, rising fuel costs, etc.), it takes an increased amount of socially necessary labor time just to keep electricity output at its existing level. Under such circumstances, electricity prices should be based on the new set of production factors rather than the old.

In the general context of socialism, how should pricing accommodate the need for funds occasioned by expanded reproduction? This point has provoked much argument in the realm of theory and must be resolved in the real world. Under socialism, would commodity values be transformed into production costs? There is no consensus on this question. One view holds that such a transformation is impossible because the distribution of funds for socialist expanded reproduction is planned and has no room for competition and capital transfer. As a result, it is argued, commodity values can be decided in accordance with their socially necessary labor time. Another view contends that under socialist conditions, commodity values can be transformed into production costs. According to this view, the value of a commodity is created by a combination of the funds of socially necessary labor (fixed assets, circulating capital, etc.) and live labor. Under socialism, funds should be regarded as the accumulation of the consumption of labor. Consequently, in planning the distribution of capital construction funds, we must follow the principle of value. When we determine the profit level as part of the price mix, (including profits and tax moneys, as below), we must base ourselves on the average social profit level (see Reference 3 pp 4-5, and Reference 4 pp 8-11).

Symposium participants believed that the latter view is more conducive to assessing and increasing the capital utilization rate, speeding up the circulation of funds, lowering the share of funds of a unit, and raising the social and economic results of enterprises, departments and society at large. Like other sectors of the economy, the profit level of the electric power industry should be based on the average social profit rate. In major industrial nations, electricity rates are also determined and controlled by the rate of return on capital. In the Soviet Union, for instance, the theoretical value of the rate of return in the electric power industry is 12 percent. It was increased in 1968 and 1982 by 15.9 percent and 12 percent, respectively, to bring it closer into line with reality. In the United States and Japan, the major electricity suppliers are privately-owned utility companies. The government ensures a definite profit margin for these utilities through a "fair compensation rate" (a capital gains rate calculated in accordance with a complex formula including interest rates in the financial markets and the social demand for electricity). With the capital gains tax, prices can be calculated by following the old formula, "costs plus profits". In most cases, the "fair compensation rate" yields enough funds for the private electricity companies to carry on expanded reproduction to satisfy the demand for

electricity. The policy of guaranteeing a suitable price for electricity is an important reason why industrialized nations in both the East and West have been able to ensure an adequate supply of electricity.

2. Assessing China's present electricity price level and predicting its future trend: Concerning assessment, the discussion can be summed up in two points. First, looking back over the entire post-1949 period, the level of electricity prices has basically been reasonable. Second, in recent years, the level has been at the low end of the spectrum.

As mentioned above, the main yardstick for determining the level of electricity prices is the capital gains rate. Statistically, the average capital gains rate of the electric power industry from 1953 through 1983 has been slightly lower than, but still fairly close to, the averages for other industries. For historical reasons and other policy considerations, the surplus rates of individual industries cannot be identical with the average for all industries. With this point in mind, we could consider the surplus rate of the electric power industry to be basically reasonable. Further, let us look at actual accumulation in the industry. Statistics show that if we had plowed back into the industry all the surpluses and taxes that it had handed over to the state during the past 30 years, the industry's capacity to generate, transport and allocate electricity would be enough to satisfy all social needs today. For the 30-year period as a whole, the level of electricity prices has been fundamentally reasonable.

In recent years, however, the capital surplus rate of the industry has been lagging behind the national average significantly. Increased fuel costs are mainly to blame. In the past 3 years, the increase in profits in the industry has been lower than one percent of the new capital funds, which fully demonstrates that electricity prices are depressed. This conclusion is confirmed by comparing the actual accumulation in the industry with its investment needs. To eliminate the effects of replacing appropriations with loans, levying taxes instead of demanding profits and increases in fuel costs, let us take 1980 as an example. Even had we devoted to capital construction all the profits and taxes paid by electric power enterprises run by the departments concerned and provinces, the industry would still have failed to meet the electricity requirements of our growing national economy (see References 5, 6 and 7).

Thus, it is clear that the profit level and price level of the industry, which were reasonable in previous years, have been depressed more recently.

Looking ahead, electricity prices are expected to pursue a stable but upward course. Prices will go up because of the functioning of the principle of values and the imbalance between supply and demand. (Some areas and enterprises with high output value have resorted to generating their own electricity at a cost of 0.3 to 0.5 yuan per kWh.) But the trend will be "stable" because of the need to avoid disruptive chain effects on the prices of other commodities. As a result of the lack of consensus on what would be an appropriate profit rate for the industry, there is no agreement in our assessment of the level of electricity prices. This diversity of opinion has affected policy-making in the area of electricity price adjustment.

Electricity prices go up for three concrete reasons:

(1) Increases in the costs of raw materials, freight charges and special tax. In 1982 alone, electricity costs went up 23 percent over 1981 (see Reference 8).

(2) The capital profits rate of the industry need to be increased. To meet the requirements of the simultaneous growth of electricity production and agricultural growth and to realize the magnificent objective of quadrupling the gross value of industrial and agricultural output by the year 2000, the profit rate needs to be increased to 14 to 15 percent (see Reference 1 pp 23-25 and Reference 8).

(3) After increasing the tax rate on electricity and the categories of tax payable by that industry, we must also increase electricity prices to ensure that the industry would still be left with the necessary amount of profits. Given the dual need to avoid increasing prices too high and to ensure the profitability of the industry, we must consider such economic reform measures as replacing appropriations with loans and imposing taxes instead of asking for the handover of profits and other price changes in a comprehensive manner.

#### IV. The Electricity Pricing System

The electricity pricing system boils down to one essential point, namely, the rational apportionment of the costs of electricity among the different kinds of consumers. It directly affects the structure of electricity prices.

Symposium discussions on the electricity pricing system can be summarized as follows:

1. We should continue to adjust and improve the structure of electricity prices. With the permission of higher authorities and the cooperation of their vast numbers of consumers, electric power departments have taken effective measures to adjust and improve the structure of electricity pricing. For example, they have gradually narrowed the applicability of preferential rates, improved the method of adjusting electricity charges in accordance with the power factor, gradually increased electricity prices in energy-deficient areas which had been set too low, and charged special rates to large consumers with plants in energy-rich areas. These measures have all produced notable economic results and should be intensified.

2. We should step up research on and actively experiment with new measures which would increase energy utilization and economic results. Some examples:  
(1) Time-sensitive electricity pricing. This measure has been in effect overseas for several decades and found to be effective in reducing the disparity between periods of peak usage and low usage. Our low electricity prices and our serious restrictions on the use of electricity seem to obscure whatever advantages this method might produce. Nevertheless, there is a case for using it on a trial basis in suitable localities so that we can acquire

the necessary experience and broaden its applicability. (2) Differential rates for planned and unplanned usage. "Unplanned" electricity should be more expensive because of the high costs of fuels used in electricity generation. Enterprises should be required to pay higher prices for electricity in excess of what was already contracted for. Some electric companies in West Germany, for instance, charge three times as much 30 minutes after the scheduled peak load. (3) Differential rates for different guarantee rates. The higher electricity supply guarantee rate is provided by a public electric network and should come with a higher price tag. The practice in foreign nations is to increase fixed electric charges instead of raising the electric charge with each additional unit consumed. (4) Differential rates for rainy and dry seasons. To encourage consumers to use electricity during the rainy season, we can charge lower prices than in the dry season. To make maximum use of water, we can make electricity prices even lower. In the dry season, on the other hand, the percentage of hydropower drops and the shortfall is offset by an increased reliance on thermal electricity. An increase in electricity charges during this period not only reflects changes in electricity costs but also promotes the use of hydropower. Some electric power companies abroad even offer extra low electricity rates temporarily during times when water supplies are exceptionally plentiful.

3. Further research must be carried out to perfect the electricity pricing system. On the question of fixed electricity charges: theoretically, the fixed cost of the basic electricity price should include fuel costs, wages and administrative charges as well as capital construction investments in fixed proportions. Capital construction investments should take into account not only existing plants but also new construction. The calculation of fixed electricity charges should also consider the time factor. At present, basic electricity charges make up only a small portion of China's electricity price mix. In fact they have not changed over the past 30 years even though the electricity generating capacity and electricity consumption mix have become totally different from what they were in the early years of the People's Republic. We can rationally raise basic electricity charges in accordance with the above factors (see Reference 1 pp 200-207, 286).

Concerning integrated electricity pricing, our present practice is to charge different rates for electricity for lighting purposes and electricity for power purposes. In the wake of economic growth and increasing demands for the latter kind of electricity, this practice has not only lost its capacity for improving economic results but has also given rise to problems in some cases. Practically speaking, it is not workable anymore. Developed countries today have stopped installing different circuits for the two kinds of electricity or charging different rates. We should actively research the possibility of integrating them for pricing purposes. A pilot project may be carried out where circumstances permit.

As to the issue of progressively raising electricity prices, in stages: Given the present state of our economy and technology, the more electricity we use, the more expensive electricity may become. Hence, the proposal

abroad for progressively increasing electricity charges as consumption goes up. In 11 countries including Italy, this proposal has become a reality, although it is mostly applied to domestic consumers. For conservation purposes, we should closely study the feasibility and economic results of such an approach in China.

The direct exchange of electricity between two electric networks should be based on mutual benefit and the rational utilization of the energy resources of the state. When several electric networks located in different places buy and sell electric power through a joint network, the economic results of the joint network should be heeded. In the Soviet Union, the controlling office of the joint network is responsible for economic calculations. It buys electric power from the selling network in accordance with the latter's rates and sells to the buying network in accordance with the buyer's rates.

The seminar also discussed the two-part electricity pricing system and its applicability to China. Ever since it was first proposed in 1882, the two-part electricity pricing system has been adopted overseas for over 100 years and is in widespread practice in many countries today.

After liberation, China also adopted the system and now has over 30 years' experience in it. Some localities considered doing away with it in 1971 to simplify the calculations of the amount of electricity consumed and electricity charges. Upon investigation, however, it was found that abolition would lead to waste in the management of electricity supply and the unreasonable distribution of the burden of electricity costs. It was also found that in the absence of the two-part electricity pricing system, units which are fairly efficient in their management of electricity consumption would end up paying more. Consumers would be tempted to create an over-capacity in their electric facilities which, in turn, might lead the electric power departments to install more capacity than justified. For all these considerations, the two-part pricing system was retained. Theoretically, the two-part system is more rational than the uniform system, a fact which has been universally recognized. As for the actual standards to be used in a two-part system, they should be determined only after taking into account all the factors which affect electricity costs (maximum required capacity, consumption, load factor, current collector voltage class, the distances of power distribution, the number of current collecting points, the tolerance for temporary blackouts). The price structure of China's two-part pricing system has changed little since 1949 and should be adjusted (see Reference 1 pp 200-207, 284-286).

How applicable is the two-part electricity pricing system? In the early years of the People's Republic, it was applied to consumers of 50,000 volt-amperes and above. This cut-off point was later raised to 100,000 volt-amperes and to 320,000 volt-amperes in 1975. Overseas there are two different approaches: (1) Western industrialized nations apply the two-part system to all electricity consumers, including households, which use more than 40,000 to 50,000 volt-amperes. (2) In the 1950's, the Soviet Union also took 50,000 volt-amperes as the minimum for applying the two-part system. This figure was later increased gradually. Today the cut-off point is 750,000 volt-amperes.

The reason for increasing the minimum point at a time when electricity consumption keeps going up is to minimize the number of consumers to whom it can be applied so as to reduce the need for measuring instrumentation and calculating work. We must analyze the pros and cons of the above approaches and work out our own policy. Some areas are considering restoring 100,000 volt-amperes as the minimum.

#### V. Tentative Ideas and Prospects

1. There should be close cooperation among practicing professionals from finance and accounting, technical personnel, comrades engaged in scientific research and teaching and theoretical workers to undertake further research on electricity pricing theories and their laws of operations; and further sum up our experience. Attention should be paid to overseas experience. According to World Bank analysis, among developing nations, Brazil, Argentina, Thailand and Yugoslavia have a fairly well-managed electricity supply system. Their network losses are relatively limited and operating efficiency is quite high. This positive situation is related to their reasonable electricity rates. Other developing nations, however, experience electricity shortages; their electric network losses are higher and their electricity charges are lower. When we study foreign experience, we should examine developing nations as well as developed ones.

2. The adjustment and reform of electricity prices should be examined from the perspective of economic reform. Right now China is implementing two vital economic reform measures, replacing appropriations with loans and levying taxes instead of asking enterprises to turn over profits. Consequently, electricity price adjustment must be coordinated with these reform measures to ensure that the electric power industry is capable of both repaying its loans and meeting its tax obligations. As a matter of fact, the very idea of replacing appropriations with loans requires that the profits of the industry include what it needs to expand reproduction. The plan to impose taxes should accommodate the need by the industry to retain some of its profits for its own use. The level of electricity prices should acknowledge such needs.

The electric power industry provides a public service. This fact, plus the experience of other countries in running publicly-owned electric enterprises, suggest that we should keep our tax rate on the industry low and the categories of tax small in order to encourage its growth. We should make the industry profitable without making its product too expensive. Our tax rate on electricity was a low 2 percent before 1958, when it was increased to 5 percent. From 1965, the tax rate has been rising rapidly. Although this steep increase might be justified by immediate factors, it should be rolled back to about 5 percent for long-term considerations. As for the categories of tax payable by the electric power industry, we had only one in the past, namely the sales tax. In addition, it also collected local taxes. Public enterprises should not levy taxes on one another. In the United States and Great Britain, all electric power enterprises run by the federal or central government pay only a small tax to local authorities and no tax to the national government. Electric power enterprises run by

local authorities are required only to bear part of the administrative costs of local authorities. In Great Britain, the amount of taxes paid by the Electricity Board to the local authorities makes up only 3.5 to 4 percent of its income from electricity charges. In the United States, the Tennessee Valley Authority is required to pay only 5 percent of its income from electricity charges to the local authorities. Also exempt from paying taxes to the central government are French electric power companies. The idea of imposing low tax rates on jointly-owned electric power enterprises and adopting a no-tax policy is to let them keep their profits for expanded reproduction. This practice is conducive to developing the social economy.

Loans to the electric power industry should be long-term and low-interest. At present, the industry is required to bear the same interest rate as the textile industry. It is suggested that the interest rate for the electric power industry be lowered. A difference should be made between a capital-intensive, long construction cycle industry like electric power and an industry like textiles which requires relatively little capital and has a short cycle. Furthermore, the maturing period of such loans should be lengthened to match the depreciation period. In both Great Britain and the United States, publicly-owned electric power companies are allowed to repay their loans over a long period of time, from 25 to 30 years.

3. The accumulation of the electric power industry should basically be devoted to the development of the industry. Statistics show that a considerable portion of the industry's accumulation since the founding of the People's Republic has been diverted to other purposes instead of being plowed back into the industry. This is an important reason why we now have a serious electricity shortage problem nationwide. Experience suggests that as a public utility, the electric power industry should be allowed to "support" itself. In this way, we can solve the problem of insufficient funds in the industry without imposing a burden on state coffers.

4. We should determine a theoretical electricity pricing level and an ideal electricity pricing structure. With this as our goal, we should further work out a practical plan for adjustment and reforming electricity prices. Attention should be paid to the interrelations between electric prices and the prices of other commodities. Holding constant the total agricultural and industrial output value, the output volume of various products, consumption volume and taxes, the Water Conservancy and Economics Research Institute has calculated the theoretical price's of various products. In the United States, economists have worked out the share of electricity costs in the newly-added values and producer prices of 20 major industrial products. (In the United States, newly-added values are capital values plus labor values.) At the invitation of the Egyptian Government, the World Bank undertook a study to find out the impact of increasing energy prices on national production and social livelihood. It was found that the chain effects caused by changes in electricity and energy prices are not as serious as previously thought. We should treat electricity price adjustment and reform as an economic tool for managing the economy and use it to promote the economic results of electric power enterprises and the consumption efficiency of electricity consumers.

5. We should strengthen research on instruments that measure, record and monitor electricity consumption as a technical way of ensuring the implementation of our electricity pricing policy and system.

The symposium provided an opportunity for a tentative exchange of research results and academic viewpoints. We have achieved some understanding on certain issues and have improved academic standards. Participants hoped that they could get together again after they have done some more work in order to contribute to the country's electricity pricing reform.

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FOREIGN TRADE AND INVESTMENT

IMPROVEMENTS IN OPERATION OF SINO-FOREIGN VENTURES URGED

Beijing LIAOWANG [OUTLOOK] in Chinese No 43, 22 Oct 84 p 24

[Article by Ji Chongwei [1323 1504 1218] and Wu Chao [2976 6389]: "Further Improve the Operation of Sino-Foreign Joint Ventures"]

[Text] Since China began in 1979 to implement the open door policy, we have already achieved a favorable amount of progress in attracting direct foreign investment. By the end of June of this year, we had already signed nearly 3,000 contracts and agreements with foreign businesses, and had attracted a total of \$8 billion of foreign investment. The establishment of Sino-foreign joint ventures is an important and effective means of attracting foreign investment. By the end of June of this year, the government had already approved the establishment of over 360 Sino-foreign joint ventures, and direct foreign investment amounting to a total of approximately \$500 million.

I. New Trends in the Development of Joint Ventures

These new directions are manifested in the following ways:

The Investment Business Has Expanded: From light industry and textiles, food products, tourism and other industries, we have expanded into building materials, electrical equipment, telecommunications equipment, electrical instruments and other industries;

The Level of Technology Imported Has Been Raised: The number of capital-intensive projects has increased and, moreover, we have set up the production of automated instruments, automated long-distance telephones, Chinese-language computers and other technological items;

The Scale of Imported Projects Has Expanded: In the past, most investments were medium or small projects worth a few hundred thousand dollars to \$1 million, but now we have a number of projects worth between tens of millions and \$100 million;

The Nationality and Regional Bases of Investors Has Expanded Significantly: In the past, most investors came from Hong Kong and Macao, whereas by now this has expanded to include Europe, North America and Japan;

The Areas in Which Joint Ventures Are Established Have Been Expanded: In previous years joint ventures have primarily been distributed among the special economic zones, the two provinces of Guangdong and Fujian, and the three cities of Beijing, Guangdong and Shanghai, but in the last 2 years we have gradually expanded this to include other coastal cities and inland provinces and regions with relatively good industrial bases.

## II. The Exchange of Markets for Technology Has Its Own Role To Play

The situation as we understand it is that the production and management situations in the majority of Sino-foreign joint ventures that have begun operation are quite favorable. Both sides have obtained advantages and have achieved the desired economic results. The advantages obtained by the Chinese side have consisted primarily of the import of relatively advanced technologies through the use of foreign funds in order to facilitate the technological transformations and upgrading of a portion of old enterprises; the learning of scientific enterprise management methods used overseas in order to advance the improvement of management of a number of enterprises; the improvement of the quality of a number of products, which strengthened the international competitiveness of export products and increased foreign exchange earnings; the development of qualified technical personnel and qualified management personnel, which increased employment levels. Foreign investors have, through joint ventures, been able to take advantage of China's natural resources and low labor costs, and through the sale of a portion of their products on the domestic market, have entered China's expanding market and obtained relatively favorable profits. In addition, the operation of Sino-foreign joint venture enterprises has also advanced economic and technological cooperation and friendly relations between China and other friendly nations.

## III. We Must Improve Our Handling of a Few Matters

For the past 4 years, although we have attained relatively favorable results with respect to Sino-foreign joint ventures, the steps that we have taken have generally been too slow and too small. The Sino-foreign joint ventures that have already begun operations still have a few difficulties and problems, and these we must investigate and resolve.

Finish Drafting the Laws: We have already done quite a bit of work in this area, but we cannot yet say that our work is complete. At the same time, in certain areas we have only domestic laws and we cannot yet fully protect the overall interests of foreign investors. For example, although the income tax rate regulated by the "Sino-Foreign Joint Venture Income Tax Law" is lower than that in Western developed countries, because we will be signing agreements to avoid double taxation with the majority of relevant countries, we now have no way of guaranteeing that these foreign investors will get any real advantage from investing in China. Therefore, we must grasp well the work of signing investment protection agreements and double taxation agreements with relevant countries, and should simultaneously further our work on domestic laws.

**Adjust Our Policies:** At present, a few of our policies do not yet completely conform to the needs of Sino-foreign joint ventures, and a few policies are not yet sufficiently concrete. Some policies have not been implemented conscientiously, and still await further adjustment. At this point, we must first put forth concrete policies and regulations regarding the question of selling Sino-foreign joint venture products on the domestic market, as well as put forth measures regarding how to properly help a few Sino-foreign joint ventures to overcome their difficulties in balancing their foreign exchange.

**Structural Reform:** For example, the procedures and formalities for project approval are too strict; there are too many high-level management organizations, so many problems must be reported to upper levels for approval, and this always wastes time and causes delays. The procedures for personnel to go overseas are restrictive and complicated, and so on. Sino-foreign joint ventures are economic entities with independent accounting and responsibility for their own profits and losses. Their production and management are closely linked to the international market, and they must be flexible in arranging their production and management in accordance with the regularly changing demands of the international market. Therefore, we must give them greater autonomy with respect to personnel, finances, and materials, and supply, production and marketing.

**Do a Good Job in Planning:** Because China's relevant regions and departments lack sufficient regulations and complete arrangements regarding the use of foreign funds and the import of technology, there exists some blindness in the establishment of joint ventures. This has led to incorrect choices for certain projects, the result of which is that after starting up operations, difficulties and problems emerge that are not easy to resolve. This certainly does not help us improve the use of foreign funds, and has also inconvenienced foreigners who come to invest in China, and prevented them from understanding which areas and which departments need which projects. At present, our relevant departments and regions have already started drawing up regulations regarding the use of foreign funds and the import of technology, which will be advantageous to the well-focused, planned, step-by-step attraction of direct foreign investment from now on. Some areas and departments and areas have already or are in the process of drawing up project schedules for Sino-foreign joint ventures, and are announcing these on a regular or nonregular basis.

We believe that only if we sincerely grasp well the above-mentioned matters, then this new economic entity known as Sino-foreign joint ventures will become a necessary complement to China's socialist economic system, and will have relatively strong vitality and a broad future for development.

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FOREIGN TRADE AND INVESTMENT

GDR TRADE REPRESENTATIVE ON SINO-GDR ECONOMIC RELATIONS

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 9, 27 Sep 84 pp 17-18

[Article by Gunter Karrasch, GDR Commercial Counselor to China: "Hope Expressed for Expanded Trade and Economic Ties between GDR and China"]

[Excerpt] Trade relations between the Democratic Republic of Germany [GDR] and the People's Republic of China have developed steadily since the People's Republic was founded in October 1949. Our major exports to China are machine tools, complete plants and transportation equipment. We were particularly active in our cooperative relations with China during the 1950's when we supplied it with factory equipment and provided technical training.

China's traditional exports, which are highly valued in the GDR, comprise mainly native products, high-class consumer products, cigarettes, tea, wines and liquors, textiles, chemical products, nonferrous metals, and so on. Processed metallic industrial products are also becoming more and more important.

Sino-GDR cooperation has entered a new phase in recent years.

--Gunter Wyschofsky, minister of Chemical Industry, led a GDR delegation to China and concluded a series of scientific cooperation agreements.

--Zhu Rongji [2612 2827 1015], vice minister of the State Economic Commission of the PRC, visited the GDR at the head of a delegation of experts and reached agreement on 40 cooperation projects concerning China's technological transformation.

--A GDR delegation led by the minister of Heavy Machinery and Equipment, Rolf Kersten, visited China and signed a cooperation agreement with the Ministry of Machine-Building Industry.

--Numerous industrial and foreign trade experts from both nations have been visiting one another, opening up new territory in economic and trade relations.

Chen Muhua [7115 1970 5478], minister of Foreign Economic and Trade Relations of the People's Republic, visited the GDR on the eve of both countries' National Days. During the visit, we concluded an agreement on economic co-operation and a protocol setting up an economic, trade and technological cooperation committee.

Let us express again our sincere desire to develop economic and trade relations with China.

Finally, as the commercial counselor from the GDR, I would like to extend to all my Chinese counterparts my most sincere congratulations on the 35th anniversary of the birth of the People's Republic of China.

May the friendly cooperative relations between our two countries flourish!

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FOREIGN TRADE AND INVESTMENT

FOREIGN TRADE VICE MINISTER ON 12 YEARS OF SINO-FRG TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 10, 27 Oct 84 pp 11-12

[Article by Jia Shi [6328 4258]: "Sino-FRG Economic and Trade Relations Made Rapid Progress in Past 12 Years"]

[Text] On 11 October 1984, we marked the 12th anniversary of the establishment of diplomatic ties between China and the Federal Republic of Germany (FRG). In these 12 years, friendly relations developed in every area of bilateral intercourse. It is gratifying that our peoples have deepened their mutual understanding and that our trade and economic cooperation have also borne abundant fruits.

I. The Legal Basis for Steadily Improving Bilateral Relations

Before 1972, trade between China and the FRG was maintained on a people-to-people basis. Since the establishment of formal relations, both governments have made abundant efforts to improve bilateral trade and economic cooperation. In 1973, we formally signed a trade and payments agreement, followed by the creation in 1975 of a joint committee designed to promote economic and trade relations. Two meetings were successively held in Beijing and Bonn. All this did much to expand bilateral trade.

On 24 October 1979, we signed an economic cooperation agreement, defining the areas and goals of economic, industrial and technological cooperation. Based on this agreement, we have also set up a joint economic committee, the function of which is to regularly review the implementation of the economic cooperation agreement. This joint committee replaced the one set up in 1975 and was elevated from the bureau to the ministry level. It has met three times over the past five years and has contributed significantly to solving problems in bilateral trade and economic relations. Both governments have expressed satisfaction with its performance.

From 1981 onwards, the FRG government has been giving us free technological assistance. We signed a technological cooperation agreement in October 1982 to ensure smooth technical cooperation between the two nations.

In October 1983, we signed an agreement for the protection of investments which, in combination with another pending agreement aimed at avoiding double

taxation, would dramatically improve the conditions under which West German and Chinese enterprises invest in one another and launch joint ventures.

During his visit to the FRG in May 1984, Li Peng [2621 7720], vice minister of the Ministry of Foreign Economic and Trade Relations, concluded a cooperation agreement with Bonn on the peaceful use of nuclear energy, thereby broadening the area of economic cooperation. In addition, we signed a number of agreements closely related to economic cooperation, such as those on shipping and civil aviation. We can say that Sino-FRG economic relations to date rest on a relatively sound legal basis.

## II. Cooperation Takes Multifarious Forms

As bilateral trade grows steadily and the scope of cooperation broadens by the day, the contacts and cooperation between our enterprises, localities and professions also proliferate and become more diversified.

Three specialized working groups--on agriculture, coal and nonferrous metals--have been set up under the joint economic committee. These groups are primarily attached to the departments concerned and mainly comprise professional experts and representatives from other relevant departments. They were set up to promote economic and technological cooperation between corresponding professions in the two countries. Both the coal and nonferrous groups have convened their first meetings. Although much substantive talks remain, these groups are useful in that they serve as a channel for the exchange of information, increase mutual understanding concerning each other's needs and the possibilities for cooperation, define cooperation directions and goals, and help solve problems.

Economic cooperation between China's provinces and the FRG's states has also registered considerable gains in recent years. As of today, Jiangsu, Shanxi, Ningxia, Jiangxi, Anhui and Shandong have set up or are negotiating to set up economic cooperative relations with North-Rhine Westphalia, Baden-Wurttemberg, Hessen, Rhineland-Palatinate, Lower Saxony, and Bavaria. Their exchange of delegations and information facilitates mutual understanding and economic cooperation between their small and medium-sized enterprises. Right now, a large batch of such enterprises in both China and the FRG have established contacts with one another through provincial or state channels, and some of them have concluded actual cooperation contracts.

Over 40 representative offices have been set up in Beijing, Shanghai and Guangzhou by West German industries, enterprises, trading companies and banks since 1979. Meanwhile, more than 10 Chinese foreign trading companies, transportation firms and engineering contractors have also established representative offices in Hamburg, Dusseldorf, Cologne and Frankfurt.

## III. Commodity Trade Grows Fast

The FRG is China's largest trading partner in Western Europe. Bilateral trade reached 2.147 billion dollars in 1983, a 6.8-fold increase over 1972. Our exports amounted to 847 million dollars, an eightfold increase over 1972, and

our imports reached 1.3 billion dollars, a sixfold jump over 1972. Even more gratifying are the dramatic changes in the commodity mix of both exports and imports. In 1972, about 70 percent of our exports to the FRG were native and livestock products. In 1983, their share dropped to 25 percent. Meanwhile, the proportion of industrial manufactured goods has grown substantially. Our machine product exports in 1983 represented a 500-fold increase over 1972. The growth rates for chemical industrial products and textiles during the same period were 76-fold and 22-fold respectively. In fact, chemical industrial products became our single largest export to the FRG last year. We imported very little technological equipment from Germany in 1972. In recent years, however, the FRG has become a major source of our technological imports.

#### IV. Economic Cooperation Flourishes

With our adoption of the open door policy, economic cooperation with the FRG has entered a new era. In recent years, Chinese and West German enterprises have concluded hundreds of economic cooperation contracts in a wide array of forms--joint production, processing with imported materials, processing in accordance with buyers' specifications, assembling, labor cooperation and joint venture. Jointly produced items include containers, small casting machines, cranes, marine diesel engines, electric motors, controlled machine tools, injection molders and color television sets. Economic cooperation between China and the FRG in a third nation has also been very successful. In the Middle East, Chinese and West German enterprises submitted joint tenders and have won a number of construction contracts.

Through economic cooperation, China and the FRG can supplement each other's economy and bring to bear on the international market their combined strength in order to increase their competitiveness. A good example is the Liming Cosmetics Company in Tianjin, a joint venture between the Tianjin Daily Chemical Products Factory and the Wei-la [phonetic] Company of FRG. Since it went into operation in March 1983, it has had a profitable first year and its products have been exported to Japan and other countries.

Other major cooperation projects currently under negotiation include the Shanghai Bao Steel Works Phase II and a joint venture between the Shanghai Tractor Company and Volkswagen to build the Jetta, a compact car.

#### V. Bright Prospects

Despite the considerable progress we have made in trade and economic cooperation, our potential for further development is tremendous.

First, China and the FRG have friendly relations and both governments attach a great deal of significance to the development of bilateral economic and trade relations. This is an important prerequisite for intensifying cooperation and expanding trade. Moreover, the FRG represents a large market; its people have a high consumption level and strong purchasing power. Since our current exports to the FRG make up only 0.5 percent of its total imports, there is clearly room for expansion. With its remarkable competitiveness in

industrial technology, product quality and in various services, the FRG will be a major supplier of the technology and equipment we need for our key construction projects and technological transformation. Apart from supplying what the other does not have, our enterprises should further improve the competitiveness of our products and services in other nations. As long as both nations adhere to the principles of equality and mutual benefit and continue to work hard, our economic relations will grow steadily.

As we mark the 12th anniversary of the establishment of Sino-FRG relations, Dr Helmut Kohl is scheduled to visit China soon. I believe this important event in our relations will have a positive effect on the development of economic and trade ties between our two countries.

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FOREIGN TRADE AND INVESTMENT

FRG AMBASSADOR LOOKS AT SINO-FRG ECONOMIC TIES

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 10, 27 Oct 84 pp 13-15

[Article by Guenter Schoedel, FRG Ambassador to China: "Retrospect and Prospect: the Growth of FRG-PRC Economic and Trade Relations"]

[Text] As the ambassador of the Federal Republic of Germany (FRG) to the People's Republic of China, I am honored to have the opportunity to write an article in the influential monthly, GUOJI MAOYI, reviewing our economic and trade relations and looking ahead. On the eve of the visit to China by Chancellor Helmut Kohl, this review takes on special significance. The economic relations between our two countries are intimate and, particularly in many fields of cooperation, highly complex.

I

Trade and commerce have always played an important role in Sino-FRG relations and contributed to the traditional friendship and mutual trust between our governments and peoples. Coincidentally, the People's Republic and the FRG were founded in the same year. Since 1949, the volume of bilateral trade has increased more than 100 times, rising by 25 percent in 1982-83 alone. The FRG is China's third largest trading partner. The volume of bilateral trade is about 1.8 billion dollars, roughly one-third of China's trade with Western Europe and 5 percent of its total foreign trade.

Mutual economic supplementation has always been, and will continue to be, an essential condition for the steady growth of our trade. China has abundant resources and a skilled labor force but lacks modern technology and appropriate industrial equipment. The FRG is one of the world's most advanced nations in terms of industrial technology. However, it does not have enough raw materials and is heavily dependent on international trade. In the main, China supplies FRG with textiles, apparel, agricultural products, raw materials and arts and crafts, and buys from it industrial equipment, steamers, machinery, instruments, electrotechnology, optical products, semi-finished articles and metallurgical products. Among China's exports to the FRG in 1983, manufactured goods, particularly textiles and medical products, showed a spectacular increase in their share of total exports. This upward trend and the continuous improvement in the quality and packaging of China's exports testify to its achievements in export promotion.

In recent years, there has been a shift in bilateral economic relations from pure "traditional" trade to medium- and long-term industrial cooperation. This shift is consistent with China's desire for more participation by foreign enterprises in the production of its export commodities and technological transfer. Almost 100 cooperation agreements have been signed by China and West German companies so far, most of them in machine manufacturing, electrical and chemical industries. Some of the agreements are for joint ventures.

As it has always done in the past, the government of the FRG will work hard to reach the common goal of strengthening our two countries' economic relations in every aspect. With that goal in mind, both governments are doing their best to exchange information in order to create conditions favorable to the continued growth of bilateral trade and expand each other's market.

In October 1983, our joint economic committee held its third meeting to discuss trade matters and explore the possibility of expanding the scope of co-operation. To lay the foundation for the exchange of information on potential cooperation projects, we have set up a number of specialized work groups to deal with matters in agriculture, coal and nonferrous metals.

--To promote cooperation between Chinese and West German enterprises, our two governments signed the "Investment Protection Agreement" and the "Cooperative Agreement on the Peaceful Use of Atomic Energy" in October 1983 and May 1984, respectively. We are also contemplating an agreement to avoid the levying of double taxation.

--In the European Economic Community (EEC), the West German government has taken part in a move to liberalize the entry of goods into the EEC, in effect reducing the few remaining trade barriers still faced by China.

--To bring about a more extensive exchange of economic information and strengthen cooperation, the two governments are pushing for the establishment of economic ties between China's various provinces and the states of the FRG.

To coordinate economic cooperation, the two governments have drawn up a comprehensive cooperation plan with provisions for government aid. The plan gives special consideration to China's hopes for full transfer of technology.

--Joint research projects in a number of technical areas have been launched in accordance with the "scientific and technological cooperation agreement" signed in 1978. Results achieved in these research projects will be directly applied by enterprises involved on both sides. The projects are primarily in such areas as energy, metallurgy, electronics, handicrafts technology, machine tools and aviation. New areas added since 1984 include South Pole explorations, oceanography, nuclear energy, space and satellite technology.

--In the field of technological cooperation, the West German government has actively supported joint development projects, bearing in mind China's priorities as outlined in its economic plan and its proposals. On the basis of the technological cooperation agreement of 1982, there are now training in agriculture, forestry, mining and an economic consultancy service. At present

we are considering such priorities as the establishment of a patent system in China, the introduction of industrial standards and the construction of a management and vocational training center. In addition, the FRG government sponsors 100 Chinese professionals to go to West Germany for advanced training each year.

--In accordance with a bilateral cultural agreement, the FRG government has provided an opportunity for about 12,000 Chinese students, graduate students and scientists to study or undertake scientific research in West Germany. About one-third of them are on scholarships provided by the FRG government. As most of them are in natural science and technology, they combine with people undergoing technical training to form a crucial force in the transfer of technology.

## II

Bilateral trade increased by 19.8 percent in the first 5 months of 1984 over the corresponding period in 1983. What is most worth noticing is the fact that while West German exports grew 10.1 percent, Chinese exports registered a gain of 31.7 percent. From the West German perspective, it is very significant that China has succeeded in expanding its exports because this can bring about a balance in two-way trade. Further even expansion of each other's exports is in the interest of both nations.

China's exports to the FRG will have an even brighter future if it can increase the variety of products in its major export categories. As far as raw materials are concerned, particularly nonferrous metals, as long as they are competitively priced and meet the needs of international markets, the prospects remain very promising. With regard to manufactured products, the Chinese government should do its best to develop items on which the EEC has imposed no restrictions. The FRG government has always been ready to support China in its efforts to secure more access for its goods into the West German market.

The principal strength of West German industry is its competitiveness which flows from its readiness to exchange technology and technological secrets. In this respect, West German industry has set an example in world trade today.

A new vista has emerged in economic cooperation between West German enterprises and Chinese ministries in such areas as energy, transportation and communications. German enterprises can supply Chinese ministries with the most advanced technology in:

- nuclear energy
- petroleum and natural gas equipment
- automobile production and assembling
- railway (rolling stock and track-laying)

--aviation and space flight technology (civil airplanes, feeder planes, helicopters, television and communications satellite)

--telecommunications equipment

West German's small and medium-sized enterprises can also contribute to the formulation and implementation of China's industrial modernization plans. What they could offer is highly advanced technology in their own areas and a flexibility which is world-famous, particularly in certain very complex projects.

West German industry is very interested in long-term cooperation with the People's Republic of China. As long as the principles of equality and mutual benefit are honored by both sides, West German industry would be delighted to cooperate sincerely with China and engage in the transfer of technology and technological secrets, even if cooperation in some instances may take special forms.

### III

The consolidation and development of Sino-FRG economic relations has been a dynamic process which draws its strength from the extensive contacts between all trades and enterprises. These contacts require improved mutual understanding and efforts to promote harmonious coexistence between our two different economic systems. Contributing to such understanding and harmony are the increasing number of Chinese and West German delegations made up of experts now visiting each other, visits by political leaders and captains of industry from both the public and private sectors, cooperation between scientists and universities, and the establishment of sister cities and provinces. In particular, we should all be concerned to overcome language barriers. This is why both governments are actively encouraging the study of German or Chinese, as clearly shown by the cultural exchange plans of both nations. Building on the frequent contacts between the two peoples, our governments have taken a wide range of measures to promote economic exchanges. I am convinced that Sino-FRG economic relations will have a bright future, to the benefit of both governments and peoples.

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FOREIGN TRADE AND INVESTMENT

ZHENG TUOBIN DISCUSSES REFORM OF SYSTEM OF FOREIGN TRADE

Beijing GUOJI MAOYI /INTERTRADE/ in Chinese No 10, 27 Oct 84 pp 3-6, 21, 26

/Article by Zheng Tuobin /6774 2148 1755/, Vice Minister of Foreign Economic Relations and Trade: "Further Reform the Administrative Structure for Foreign Trade; Create a New Situation in Foreign-Trade Work"/

/Text/ On 15 September 1984, the State Council approved, appended comments to, and circulated a report by the Ministry of Foreign Economic Relations and Trade /MOFERT/ containing ideas concerning the reform of the administrative structure for foreign trade. These are important documents. Implementation of the State Council's instructions and the MOFERT's report will enable the restructuring of China's foreign-trade system to enter a new stage. We must conscientiously study and implement the State Council's instructions and complete our restructuring work in accordance with those instructions and the MOFERT's report.

The CPC Central Committee and the State Council are very concerned about the restructuring of the foreign trade system and have issued many directives thereon. On 1 August this year, the Standing Committee of the State Council heard a report of the MOFERT's ideas concerning restructuring work, and Premier Zhao Ziyang, each vice premier and several state councilors expressed important ideas that have enabled us to define the course for the restructuring of the foreign-trade system more clearly and to better understand the importance and urgency of this work. The present document is based upon the instructions provided by these leading comrades of the State Council, emerged through repeated discussion and revision and represents a breakthrough in the restructuring of the foreign-trade administration. The realization of this reform will provide an important guarantee for the further implementation of the open-door policy and for the creation of a new situation in foreign-trade work. I would like to discuss here three issues relating to how we should implement the State Council's instructions and further restructure the foreign-trade system.

I. A Brief Review of the Reform of the Foreign-Trade System Over the Past Several Years

The leadership of the CPC Central Committee and the State Council are very concerned about and stressed very early the restructuring of the foreign-trade administration. The 3d Plenum of the 11th CPC Central Committee pointed out

that there are serious shortcomings in China's system of economic management and managerial practices and that we must thus initiate conscientious reform thereof. In accordance with the instructions of leading central comrades and to meet the needs of the policies of invigorating the domestic economy and of opening up to the outside world, we progressively initiated reforms of the foreign-trade administration beginning in 1979. During these 5 years, we followed the orders of the central authorities, implemented pilot reforms, conducted investigations and effected the following changes in the foreign trade system. First, we eliminated the monopoly over foreign trade exercised by foreign trade agencies, broadened channels for the management of foreign trade and mobilized departmental and local enthusiasm for expanding exports. This work consisted primarily of a decentralization and downward transfer of the authority to administer the import and export of some commodities and the establishment of new companies to handle import and export operations. According to statistics, nearly 600, or 5 times the number existing in 1978, such enterprises were established at the provincial level and above (excluding companies in special economic zones or at the prefectural or city level and below) by the end of this August. Second, we expanded local authority to manage local exports and permitted each administrative level to manage a certain range of exports. At present, 29 provinces, autonomous regions and municipalities, 4 special economic zones, the Hainan Administrative District, Chongqing, and Wuhan all enjoy varying degrees of authority to manage foreign trade. This constitutes a major change in comparison to the past, when only coastal provinces and municipalities were permitted to participate in foreign trade. Third, we have explored ways by which to link industry and trade, technology and trade and production and sales so as to combine advantages in production and trade, import new technology, promote product upgrading and replacement and expand exports. Our efforts in this area have consisted primarily of permitting some large, key manufacturing enterprises to manage their own foreign trade operations and approving the establishment of import-export and joint companies that combine industry and trade and technology and trade. These pilot reforms have achieved definite results.

Through these pilot reforms and investigations, we have taken the first steps toward broadening the channels of foreign trade, making trading practices more flexible and diversified, arousing everyone's enthusiasm for the expansion of foreign trade and promoting increases in China's exports.

Nevertheless, we have not thoroughly studied and comprehended the central authorities' policies and guiding principles on reform and thus we do not understand the urgency of these reforms. Consequently, we have not shown sufficient enthusiasm or initiative and have failed promptly to offer relevant and important proposals or systematic reform programs. Instead, we have merely dealt with matters as they crop up, and we have long played a passive role. Internally, we have not conscientiously and effectively unified thought, and we have also lacked experience in restructuring work. Consequently, some major and fundamental problems have not been resolved, and shortcomings in foreign trade administration have not been eliminated. These problems include the following.

1. Administration and enterprise are not separate. Leading central comrades noted this problem a long time ago and ordered that enterprise and administrative management be separated. The functions of the state and of an enterprise differ and cannot be treated in the same fashion. Under socialism, ownership rights and managerial authority both can and should be separated, and state ownership, or ownership by all the people, does not imply that state organs may freely interfere in or encroach upon independent enterprise authority. We have long failed to understand this principle and thus in the last few years have failed to apply the central leadership's relevant instructions. This lack of separation is a major shortcoming in China's system of economic management. In foreign trade work, this failing saps enterprises of vigor, shackles enterprise initiative, affects the development of foreign trade work, intensifies bureaucratic work styles in foreign trade companies and prevents some enterprises from vigorously serving supplier departments, producer enterprises and consumer units. The lack of separation allows too many agencies to set policy and prevents the departments in charge of foreign trade from performing their functions and from effecting unified management. Administrative departments meddle too much in the details of enterprise management, trying to run things they shouldn't, bungling others, failing to take charge of major policy issues and thus contributing to bureaucratism. These tendencies actually undermine the role of state organs.

2. "Eating out of the same big pot." The restructuring of the foreign trade administration in the past few years has failed to integrate responsibility, authority and interests and to resolve the problem of "eating out of the same big pot." Although managerial authority over foreign trade has been transferred downward, economic responsibility has not, and there thus has emerged a bifurcated system of management, in which the MOFERT (that is, the central financial agency) bears full responsibility for all profits and losses and enterprises eat from the state's "big pot." During restructuring, corresponding changes have not been effected in the foreign trade financial system, and this oversight has resulted in a separation of responsibility, authority and interests and caused a steady decline in economic results.

3. Production and marketing are divorced from one another. The problems of integrating industry and trade and technology and trade have been spotlighted for many years, and some pilot reforms and investigations have been attempted. Yet the problems have not fully been resolved. The primary reason for this failure is that the downward transfer of the authority to manage foreign trade usually is limited to an expansion of local or departmental-unit prerogatives, that is, to a transfer among administrative agencies, and does not touch upon the crucial issue of granting foreign trade or production enterprises autonomy. Instead, these latter entities are still encumbered by horizontal and vertical administrative shackles and cannot obtain true control over foreign trade, and thus their initiative is not fully mobilized. Although there is an urgent need for integration among basic-level industrial and trade enterprises, this desideratum frequently cannot be achieved due to interference from departments and local administrations. Thus some pilot projects combining industry and trade are reduced to a mere formality, and the advantages thereof are not fully realized.

In short, the pilot projects and investigations conducted in the restructuring of the foreign trade system over the past several years have failed to transcend the conventional patterns of the past and make new breakthroughs. Stimulated by the party consolidation movement and in accordance with the Government Work Report delivered by Premier Zhao to the Second Session of the Sixth NPC in May of this year, we summarized the experiences gained in the restructuring of the foreign trade system over many years, gradually rectified guiding managerial ideology, restudied the problems of restructuring work and proposed a program for further reform. This is the program that was incorporated into the document that was approved and circulated by the State Council.

## II. The Essence of the State Council's Instructions and the MOFERT's Suggestions Concerning the Restructuring of the Foreign-Trade System

In his aforementioned Government Work Report, Premier Zhao stated, "To expand China's foreign trade further, we must gradually restructure the foreign trade system. In foreign trade work, we must implement unified leadership and delineate managerial responsibility overcome the problem of fragmented policy making, adapt to new situations, further invigorate the economy, adopt strong measures and mobilized the initiative of all quarters. The restructuring of the foreign trade system must be conducted so as to facilitate integration of industry and trade and technology and trade and to promote separation of administration and enterprise." This reform contains three main provisions: (1) Administration and enterprise are to be separated, and the MOFERT is to be solely responsible for administrative operations; (2) agents are to be commissioned to manage foreign trade; and (3) industry and trade, technology and trade, and exports and imports are to be integrated.

1. We must separate administration and enterprise, simplify administration and transfer authority. This represents a breakthrough in the restructuring of the foreign trade system and constitutes the core of the present reform. In the past 30-plus years, China consistently employed an economic management system that combined administration and enterprise, and the same was also done in foreign trade work. The lack of separation between administration and enterprise led to overcentralization and gave rise to many defects. If the current reform resolves this fundamental problem first, this would constitute a major step forward. Once separation is effected, the MOFERT and similar bureaus (commissions) in provinces, autonomous regions and municipalities will be responsible solely for administrative work, and import-export operations will be handled independently by foreign trade enterprises. According to the instructions of the State Council, the MOFERT will exercise state management over foreign economic relations and trade, unify leadership, be responsible for overseeing all foreign trade work and all foreign trade enterprises in the country, and perform a total of 10 types of administrative functions, in which the ministry will adhere to the principle of distributing appropriate managerial responsibility to each level and transfer authority to the relevant bureaus (commissions) in each locality so they can perform their proper functions.

All foreign trade enterprises should gradually become independent of the administrative departments to which they are now subordinate, administration and enterprise should be separated and enterprises should operate independently,

take full responsibility for profits and losses and become more specialized and socialized. Naturally, this will entail a long process, but once the proper direction is determined, that direction should be followed resolutely. The separation of administration and enterprise is by no means limited to foreign trade departments; the import and export companies under other departments and localities must also accomplish this separation. And we must be especially sure to avoid incorporating foreign trade enterprises into other departments, for this would still mix administration and enterprise, contravene the purpose of the reform and fail to invigorate enterprises.

To ensure continued growth in foreign trade, we must have some national, specialized and socialized foreign trade companies that engage in export and import work. Thus we must retain the existing 10-odd national foreign trade companies, for these constitute our main force in this work; undertake the complex, heavy but glorious tasks of importing and exporting; have amassed considerable experience through many years of involvement in international trade; have established connections and brand names, which are of great value in foreign trade; and thus cannot be replaced by any other enterprise. For the present, these companies must remain stable and should not be subjected to major change. Of course, the monopoly over all foreign trade previously exercised by this handful of companies was completely inimical to the growth of foreign contact and trade and thus had to be broken up. Thus the profusion of medium and small foreign-trade enterprises that arose in the wake of this breakup and the acquisition by many large manufacturing enterprises of the authority to manage foreign trade represent the inevitable results of objective laws of development and are good things, not bad. We should embrace and welcome these new participants; extend our hands to assist them; nurture their healthy growth as we would that of young sprouts; make no distinction between large and small, new and old; treat the new entrants fairly and equally; and let them complement and motivate the specialized national foreign trade companies so that both new and old can cooperate to accomplish the tasks of foreign trade work. In the future, we will no longer permit the specialized companies to monopolize foreign trade, but we will allow them to compete and operate so as to enliven foreign trade work. This reform is designed not only to invigorate the domestic economy and to promote the opendoor policy, but also to meet the needs of society.

To further enliven foreign trade management and to effect the transfer of authority, we have decided to reduce the number of commodities subject to centralized import and export by the national companies. Within approved limits, a number of foreign trade companies may handle similar commodities on a competitive basis and arrange supply and organize procurement beyond their locales, and we advocate the free commissioning of agents. These items form major components of the restructuring of the foreign trade system and the liberalization of foreign trade policy. We must do our work carefully and abide by state policy. The documents stipulate that the specialized national foreign trade companies are to exercise leadership over their branch companies. Local foreign trade companies may voluntarily work with or establish partnerships, cooperative ventures or joint ventures with these national companies. No administrative department may arbitrarily interfere in such arrangements. These provisions were drawn up on the basis of existing conditions and practicalities

and may not prove totally satisfactory. Thus during implementation we must seek to gain experience and perfect these provisions. The national foreign trade comapnies should fully mobilize and give full play to the initiative of their branches; grant the latter more autonomy; transfer more authority, not take it back; and make some sacrifices so as to give their branches more substance.

2. Agents should be employed in export and import work. The agent system is a system in which foreign trade enterprises provide services, act as agents for import and export work and receive commissions therefore and in which the units commissioning agents assume full responsibility for profits and losses. This is a powerful measure that is designed to overcome the "eating out of the same big pot" problem, resolve the contradiction in which trade growth has engendered rising deficits, improve economic results and sweep away the obstacles to the growth of foreign trade. Beginning next year, enterprise operations as agents for imports and exports shall be expanded.

In the past, we generally employed the procurement system in handling exports. This approach was necesary because circulation was sluggish and commodities were in short supply, and thus the system served to ensure growth in foreign trade. Nevertheless, with the tremendous change in the domestic economy, the expansion of production, improved circulation and the further implementation of the opendoor policy, this system is becoming increasingly unsuitable and is showing many defects. First, production and marketing are becoming divorced from each other, which impedes the growth of exports. Second, there is overstocking, which ties up much capital; causes good to mildew, rot or deteriorate; creates many losses and much waste; and reduces economic results. Third, there is the "eating out of the same big pot" problem, which leads to the anomalous situation in which foreign trade growth creates ever larger deficits for the state. Next year, we shall in general employ the agent system for exports, yet we must treat each commodity differently in accordance with varying conditions, refrain from arbitrary uniformity, permit diversity and enliven operations.

Next year, we shall strive to implement the agent system across the board. The prices of some commodities may be readjusted, and departments ordering such goods should encounter no difficulty in assuming responsibility for profits and losses.

In recent years, we have implemented the agent system in import operations that account for one-half of our total import value. We have also had some experience with this system in exporting, especially this year, when the system was employed for exports not included in the state plan. The results have been outstanding, which proves that the system works. Thus we should make it the basic form of foreign trade management and gradually extend it.

3. We must reform the planning system and reduce the range of planning. Ever since the foreign trade planning system was restructured, all departments in charge of foreign economic relations and trade and all foreign trade enterprises have been required to assume planning for this work. To accomplish their targets, these entities rely upon administrative and economic measures. Proper application of these measures will ensure plan fulfillment, improper use

or mistakes will affect the plan or cause it to fail. We can no longer use the old methods of plan fulfillment and must adopt new ones, and this makes our responsibilities heavier.

4. We must restructure the foreign trade financial system and strengthen measures for the readjustment of the economy.

5. We must further integrate industry and trade and technology and trade.

The integration of industry and trade and technology and trade is an important policy for the expansion of China's foreign trade and the acceleration of her technological development. We have emphasized this issue for many years and conducted some pilot programs, but the results have not been notable, because enterprises have been fettered horizontally and vertically by administrative shackles and thus have been unable to choose partners and enter into cooperative arrangements freely. After several years of experience, we believe that cooperation between trade and manufacturing enterprises forms the key to the integration of industry and trade and that the separation of administration and enterprise and the implementation of the agent system will eliminate the obstacles to the integration of industry and trade and technology and trade. When foreign trade enterprises gain operational independence, they will be able, according to their own circumstances, to formulate concrete growth strategies; cooperate with manufacturing and scientific and technological enterprises for specific purposes and in a planned fashion; vigorously provide service and information; and thus achieve the best economic results. The elimination of administrative shackles and departmental prejudice will enable all enterprises to choose the best programs for integrating industry and trade and technology and trade. The implementation of the agent system will clarify the responsibilities of manufacturing, trade and technological partners, make everyone's interests coincide, reduce intermediate links and inevitably promote the integration of industry and trade and technology and trade. When these two integrations are successfully achieved, China's foreign trade work will grow and prosper.

In short, the MOFERT must synthesize and apply economic and administrative measures so that when foreign trade is unleashed and invigorated on the microscopic level, that work can be managed properly at macroscopic level; so that unified leadership is effected and managerial authority delineated; so that fragmented policymaking can be eliminated; and so that we can adapt to new situation, adopt strong measures and mobilize the initiative of all quarters.

### III. Several Problems to Which We Must Be Attentive

The State Council circular states, "The current restructuring of the foreign trade system constitutes an important reform of China's economic system and is of great significance for China's open door policy, the invigoration of the domestic economy, the further expansion of China's foreign trade and the acceleration of the four modernizations." This reform involves a major restructuring of the employed in foreign trade for the past 30 years. Yet since it is major, this reform is bound to encounter some problems and difficulties in

ideology and understanding. We thus must adopt a correct attitude and correct methods to handle the problems that might crop up, and we must resolve contradictions so that the reform can progress more smoothly and the State Council's orders can be effected.

For this reason, I believe that there are several problems that warrant careful attention.

1. We must unify thought and understanding. In the past several years, there has been much discussion of the restructuring of the foreign trade system, and people's ideas are not entirely identical, which is understandable. Nevertheless, now that the State Council has correctly decided, based on the new circumstances, to initiate reform, our task is to conscientiously study and resolutely carry out that decision. We must unify thought and understanding, which is to say, we must rally around the State Council's instructions and documents. Each unit must organize all of its cadres, workers and staff members to study the documents conscientiously and to fully understand the importance and urgency of this reform. And we must abide by the State Council's instructions, conduct ideological and political work properly, eradicate old concepts and methods, liberate ourselves from force of habit and implement reform resolutely and in proper sequence.
2. We must emphasize actual implementation. We now have a general outline for reform. Relevant units in the MOFERT have begun to formulate operational regulations for the reform, and we must be sure that these regulations are consistent with the principles contained in the outline, which is to say that these regulations must complement the outline and actualize its spirit. When formulating operational programs, we must make sure to continue to give full play to and protect local and departmental initiative. The main thrust of this reform is to streamline administration and transfer authority. Some of the ministry's authority must be centralized, and some must be transferred to special commissioners' offices and the foreign economic relations and trade bureaus (commissions) in each province, autonomous region and municipality so as to distribute appropriate managerial responsibility to each level. National companies must also transfer authority to their branches and avoid monopolizing everything.
3. We must advance in proper sequence. The current reform involves a great step forward and a break from traditional practices. Such a major change is bound to encounter all kinds of unanticipated difficulties during implementation. Thus we must abide by the State Council's instructions, advance in proper sequence and refrain from precipitous action.

Beginning next year, the national companies will be separated from the ministry, will no longer be subordinate to it and will function as independent enterprises. Everyone must take this step. Nevertheless, the companies must make necessary preparations and carry out their respective reforms in proper sequence, get a handle on this work, consider everything carefully and implement their reforms vigorously but smoothly. We must also ensure unity in dealing with foreigners. We hope that once administration and enterprise are separated, each company will perform better and make greater contributions to the country.

4. We must conduct propaganda work properly. Once the program is announced, each locality is bound to produce a variety of responses. Thus we must make full ideological preparations for this eventuality; conduct propaganda and explanatory work properly; adopt a variety of methods; employ every medium; take advantage of every opportunity; organize the forces of each quarter; and, from practice to theory, initiate prepared and systematic propaganda work, prepare public opinion for reform and guide reform work along the correct path. At present, we must publicize the great significance and urgency of the reform and the need to separate administration and enterprise and to implement the agent system. The leading comrades of the State Council have also emphasized the fact that over the past 30 years foreign trade work has to a substantial degree practiced egalitarian procurement, while the present program will permit competition and select only the best goods for export. For this reason, local foreign trade will expand unevenly, with some places enjoying rapid growth, some slow growth and a few may experience stagnation. This situation will create a certain amount of pressure, provide an impetus and encourage each locality to make full use of its own advantages, to choose the best goods for export and to enhance export competitiveness. The leading comrades of the State Council have already raised this point and ordered each quarter to make ideological preparations. This is very important, and we must emphasize propaganda work. The MOFERT must make appropriate plans, attempt to reduce local difficulties as much as possible, make special efforts to extend extra help and professional guidance to certain localities so as to avoid major dislocations, and devote proper attention to special circumstances and to any problems that might crop up.

5. The MOFERT is empowered by the State Council to exercise unified leadership and is responsible for managing all administrative agencies in charge of foreign trade, and following the separation of administration and enterprise, the focus of the ministry's work will shift to the administrative management of foreign trade and to the support of the economy. This constitutes a major change in the functions of ministerial agencies, all comrades of which must successfully unify thought, adapt to the needs of and the new conditions created by this reform and recognize that our responsibilities are now greater, not lesser, than before. We must correctly apply administrative and economic measures, manage foreign trade work and treat equally all enterprises authorized to conduct import and export work. It must be recognized, however, that the current organizational lineup and range of authority of the functional agencies under our ministry are unsuited to the new needs of the reform and thus must also be changed in accordance with the principles of administrative streamlining and the transfer of authority. On the basis of the new needs presented by the separation of administration and enterprise, we shall study and redetermine the organization and authority of these agencies, which work forms a major component of the reform. On this issue, we must similarly liberate thought, free ourselves from old conventions and discard old models so as to adapt to the new conditions and meet the needs of the reform. We must promote, not hamper, the restructuring of the foreign trade system.

In the first 8-plus months of this year, foreign trade has performed very well, trade volume has expanded more rapidly, economic results have markedly improved and thus we have been able to expand foreign trade through improved economic

results, which accomplishment is very gratifying. Nevertheless, we must by no means slacken our efforts. Cadres of all levels and the broad masses of workers and staff members must continue to exert themselves in the remaining few months of this year and strive to complete and overfulfill their annual targets so as to promote the smooth implementation of the reform and lay a firm foundation for the realization of the sixth 5-year plan.

All cadres and comrades must assiduously study and master the documents issued by the State Council, conscientiously and courageously implement the reform, dare to blaze new trails and strive to contribute to the full realization of the reform, the development of foreign trade work and the creation of a new state of affairs in foreign trade.

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FOREIGN TRADE AND INVESTMENT

RELATIONSHIP BETWEEN REFORM, OPEN DOOR POLICY DISCUSSED

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Oct-Dec 84 pp 1-5

[Article by Jiang Zehong [3068 3419 1347]: "Relationship Between Reforms and the Open Door Policy"]

[Text] Bringing about reforms and opening our door to the outside world are two major missions at the present stage of our work in the economic field. Introducing reforms, however, is not the same thing as opening our door to the outside world. Reformation is a revolution that is wider in scope, more profound in its effect and richer in content than opening our door to the outside world, although the two are closely related. We must adopt the open door policy if we are to bring about economic reforms. However, while the open door policy calls for reforms, unnecessary reforms will not contribute to the implementation of the strategic decisions to open our door to the outside world while preserving our independence and sovereignty. Reforms, too, call for opening our door to the outside world. Unless we adopt the open door policy while retaining our independence and sovereignty, it would be difficult to bring about reforms. Reforms provide a foundation on which to implement our open door policy, while the adoption of the open door policy is necessary to bring about reforms. In this article, it is the wish of the author to engage in a cursory discussion of the relationship between reforms and the open door policy.

I. The Open Door Policy Is a Major Item of Reform

Over 100 years ago, Marx and Engels clearly pointed out in the "Communist Manifesto" that, under recent historical circumstances, economic problems are not exclusive to any one nation. It is said in the "Communist Manifesto" that "The policy of closing the door to international intercourse and maintaining a state of self-sufficiency adopted by certain localities and nationalities is a thing of the past, having been replaced by interchange and interdependence among the various quarters" and that "Since machinery and steam came into use, the need for the division of labor on a large scale has made it necessary for the large industries to look beyond their national bases and to depend on the world market, international exchange and international division of labor for their existence."<sup>1</sup>

1. "Collected Works of Marx and Engels" Vol 4, p 169.

The unprecedented development of trade among the nations, the interflow of capital, the interchange of technology, the exchange of personnel and the free flow of information have made the situation increasingly intricate and borne out even more clearly the correctness of the scientific thesis of Marx and Engels.

In this day and age, despite their different economic levels, different social systems and even the conflicts that exist among them, the different countries depend and exert a mutual influence on each other for their existence. Many historical facts in China and the world have proved that in order to forge ahead, a nation must seek to develop by leaps and bounds. It cannot lag behind and place itself in a passive and vulnerable position. Instead of following the beaten path and closing its borders to the outside world, a nation must take advantage of the situation, open its door, play its role on the world stage, engage actively in the division of labor among the nations and attach importance to and make the best use of historical trends in the development of international economic relations.

As Lenin had occasion to point out, "A socialist republic cannot exist apart from the outside world. Under present circumstances, it should regard its own existence as being dependent on its relationship with the capitalist countries."<sup>2</sup> Stalin, too, said: "It is utmost folly to regard socialism as something which calls for a nation to close its door and to sever its dependence on the national economies of its neighboring countries."<sup>3</sup> Under the guidance of this idea, the Soviet Union achieved notable gains in importing a vast range of technologies and absorbing large amounts of foreign capital in the 1930's.

On the eve of and shortly after the liberation, those in leadership positions in our party and government repeatedly made known their support of the open door policy. On many occasions, Comrade Mao Zedong pointed out the need "to rely first and foremost on our own efforts and on foreign assistance as a secondary measure." That is to say, we must, on the basis of our own strength, make use of the favorable external circumstances to promote the development of our socialist economy. During the early period following the establishment of the republic, however, the blockade imposed by the capitalist countries offered us no alternative but to adopt the "leaning to one side" policy. Later on, as a consequence of the withdrawal of experts and the tearing up of contracts in a breach of faith by the Soviet Union and our own one-sided understanding of the meaning of self-reliance resulting from our mistaken "leftist" ideas, we

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2. "Collected Works of Lenin" Vol 32, p 303.

3. "Collected Works of Stalin" Vol 9, p 118.

became isolated from the outside world. During the period of rampage launched by Lin Biao and "the gang of four," great damage was done to the development of our external economic relations by our complete disregard of the objective laws governing historical developments. Consequently, a golden opportunity was lost and our socialist economy was dealt a severe setback.

In recent years, our party and government, in strict accordance with the basic principles of Marxism, have, on the basis of the scientific analysis of the trend of developments of the world economy and on the actual experiences we have gained in the establishment of socialism in our nation, reiterated their firm support of the open door policy. This basic national policy, representing as it does a major economic reform, is of great significance both in theory and practice and should, therefore, be given our fullest support.

There are many economic advantages in opening our door to the outside world. The first is that it helps to supply what we stand in need of, to adjust surpluses and shortages and to ensure and promote the smooth progress of expanded reproduction. The second is that it enables us to participate in the international division of labor, to take advantage of our strong points while minimizing our weaknesses, to conserve the use of labor and to increase our economic benefits. The third is that it enables us to import technologies, to make use of foreign capital and to take advantage of the scientific methods of operational administration to make up for our shortcomings, to speed up socialist economic construction in our nation and to add to our capacity for renewal through our own efforts. When the indirect effects of the chain reaction set in motion by the impact of economic development in society are taken into account, the macroscopic benefits are even more considerable.

One of the 14 coastal cities in our nation and one situated at the forefront of our contacts with the outside world, Shanghai, must take full advantage of its economic and technical foundation and favorable position as a coastal city to contribute further to the creation of a new situation resulting from the implementation of our open door policy and play its role as an "important base" and a "trailblazer" in our four modernizations. In conformance with the general strategy for the economic development of our nation and the demands made by the central government and the nation, Shanghai has, by taking advantage of its favorable economic situation and its special features, set the direction for the economic development by "reaching out, uniting the domestic forces, introducing reforms and developing our potentials." That in itself is a major reform in the economic field which will have a major impact on the transformation and vigorous development of the city. In the course of this reform, the implementation of the open door policy and the development of foreign trade are part of the work of reaching out. If properly done, the work of reaching out will result not only in the economic development of Shanghai and the remolding of the old

enterprises and the old city but also in the import of advanced technologies, the adoption of scientific methods of administration, the transmission of information, the training and deployment of gifted personnel, the rendering of support to the hinterland, dealing properly with the challenge posed by the new technological revolution and the invigoration of the national economy.

In short, it is on whether we can hold the initiative and deal in a positive manner with the open door policy that determines whether we can adhere firmly to Marxism and achieve the desirable speed, level, benefits and quality of our economic development. That is a matter of great strategic significance not to be taken lightly.

## II. The Open Door Policy Must Be Based on Reforms

One of the major items of economic reform, the work of opening the door to the outside world also calls for urgent corresponding reforms. At present, our foreign trade administration system, the way we go about our work and our workstyle are still hampered by stifling over-concentration, excessive control, the tendency to hold each other up and cumbersome procedures. Unless reforms are brought about, it will be difficult to implement and enforce in a firm manner the correct policy of opening the door to the outside world.

One of the major objectives of the open door policy is to use foreign capital for the import of technologies. To make full use of foreign capital, we must bring about reforms. Since 1980, over 10 enterprises jointly set up by China and foreign countries have been established in Shanghai. Of the five already in operation, three have shown profits while two, including the "Foxboro" Company visited by President Reagan, have been opened only for a year and are still encountering some difficulties. However, both the profitmaking enterprises as well as those which are still beset with difficulties and have yet to show profits are faced with a common problem, namely, the difficulty of buying raw materials and of selling their products. They not only cannot get all the raw materials they need but the channels for selling their products are not sufficiently unimpeded to permit the free flow of goods. Unless this situation is rectified in time, the operation of these joint enterprises and the utilization of foreign capital will be adversely affected. Can this problem be gradually solved by making use of the positive auxiliary effect of market adjustments and by reforming the existing circulation system? The fact that a certain portion or even a major portion of the products turned out by some joint enterprises are being sold domestically is certain to compound the foreign exchange balance problem. How are these enterprises, having opened up the domestic market and made their money, to sell their RMB in exchange for foreign currencies to pay for the purchase of equipment from abroad and to turn their profits into foreign exchange to be remitted abroad? Where can the RMB be changed into foreign currencies and what should be the rate of exchange? Unless this problem

is solved satisfactorily on the principle of equality and mutual benefit, it would be idle to expect foreign capital to keep coming in. This and similar problems can only be solved by introducing reforms without which the demand for making good use of foreign capital cannot be met.

The open door policy not only calls for taking in what we need but also for the expansion of exports to the world market. In trade relations, there must be a balance in international payments. It is only when both imports and exports are developed that one can promote the other and set the benign circle in motion. Reforms are urgently needed in the business of taking in and reaching out. Shanghai must attach greater importance to the work of reaching out. In reaching out, we must take the line of least resistance, catch the other party off guard, stick in a needle where there is room and resort to each and every available means to find a place for ourselves in the world market. For instance, in developing the export trade and doing business with foreigners, we must be prepared to cope with intense competition and the rapidly changing situation in the world market instead of waiting for the client to come to the door, selling only what we have to sell and indulging in the fantasy that other people would concede their place in the market so that we may develop our business. Whether or not we can break into the world market depends on our economic clout and on the capacity for absorption of our trade partners. The export trade depends on whether our export commodities are in demand, the strength of our many competitors and their foreign trade strategy. It also hinges on our administration system and our work method and workstyle. Facts have proved that we cannot exist if we do not break out and open up the market. That is a reality, grim as it may be, in the present-day world. In order to push to the front, we must do a creditable job in bringing about reforms in the foreign trade administration system.

Shanghai occupies a rather prominent position in the world economy. As early as half a century ago, Shanghai, known as "Pearl of the Far East," was one of the 10 largest ports in the world. In the 1930's and 1940's, it handled half or even two-thirds of China's total foreign trade. Compared to Shanghai, Hong Kong rated only the sobriquet of "Little Shanghai." However, in the old China, the position enjoyed by Shanghai in the world economy was abnormal in that it was semifeudal and semicolonial in nature and not the result of the implementation of the open door policy of an independent and sovereign nation. Consequently, it was not able to hold on to its position and to exercise its sovereign rights. The function and the role assumed by the old Shanghai were largely imperialistic in character.

Today, our nation has achieved its independence. Our socialist fatherland is a sovereign nation fully capable of implementing its open door policy independently and as a sovereign state. As one of the pieces in the national chessboard, Shanghai must work hand in hand with the four special zones, the coastal cities and the vast hinterland and act as one in dealing with the outside world. Thus, insofar as foreign trade is

concerned, the Shanghai of today, which bears little resemblance to the old Shanghai in its nature, its function and its role, must shed its abnormal and lopsided character and seek to develop in a healthy manner. While it would not be realistic to expect Shanghai to resume its historical role of the olden days, its importance cannot be discounted in the development of our foreign trade.

Some comrades are of the view that we are faced with a challenge from three directions, namely, the new technological revolution, the Pacific and Taiwan Province. In view of the important position it holds in our foreign trade, its favorable conditions and the role it is capable of playing, Shanghai is dutybound to take the lead in meeting the challenge. The slogan "to establish a foothold in Shanghai with the backing of the entire nation and advance across the Pacific Ocean toward the whole world" is a war cry to take up the challenge, what the Central Committee of the CPC expects of Shanghai and a major strategic concept under present circumstances.

Not long ago, I had occasion to attend a seminar on the situation in the Pacific held in Hawaii. Having heard the opinions expressed by some American academics and businessmen, I was greatly impressed with the need for Shanghai to meet the challenge posed by the Pacific Ocean. It came across to me that there is a new upsurge of "China fever" in general and "Shanghai fever" in particular. While some foreigners may dispute the idea of Shanghai as a "quintessential threshold," they nonetheless attach great importance to the city in view of its position on the Pacific coast, its favorable conditions and its potentiality. In point of economic development, the Pacific is the fastest developing region in the world. During the past 20 years, its average rate of economic growth has been twice that of the world. Great importance is attached to the Pacific by the United States, Japan and the Soviet Union which regard "the 21st century as the century of the Pacific." The strengthened position of the Pacific area in the world economy cannot but have a major effect on Shanghai. It must, therefore, take advantage of the swift emergence of the Pacific area to make plans for meeting the challenge. It must make full use of all the positive factors it has in its possession that can be put to use in meeting the competition and in waging the struggle so that it may gradually be established as a world center for production, trade, financial transactions, information exchange and shipping. It goes without saying that unless the necessary reforms are brought about, Shanghai will not be in a position "to face the Pacific."

### III. The Open Door Policy Is Major Factor in Promoting Reforms

The open door policy of our independent and sovereign socialist nation promotes our reforms in general and the development of our economic reforms in particular.

In bringing about reforms, we must be practical and realistic. We must admit our backwardness and have the courage to face the facts and to learn with an open mind the strong points of other nations. We must have the insight to stand on our own feet and take a broad and long-term view of the world and the projects of modernization. Opening our door to the outside world is the only way we can benefit from the strong points of other nations and do a creditable piece of work in the three areas. The best way to broaden our views, to understand fully the state of the nation, to learn, to make use as a source of reference and to draw on the experiences of other countries that can be put to our own use is by adopting the open door policy, studying the actual circumstances at home and abroad, analyzing the common points and differences, comparing the strong and the weak points as well as the superiorities and inferiorities and learning from our own experiences in developing effectively the work of economic reform in our nation.

In the first 10 years following the liberation, severe restrictions were imposed on our open door policy by the historical circumstances that existed at the time so that we had no choice but to lean to the side of the Soviet Union and to copy from it mechanically without consideration for the different conditions that existed in the two countries. As a result, many errors were made in our work in the economic field and in the shaping of our economic theories. Although we managed to break the bonds imposed by the Soviet Union in the late 1950's and early 1960's, the historical circumstances that existed at the time made it even more difficult for us to adopt the open door policy. Thus, we closed our door to the outside world and launched the disastrous "Great Leap Forward" movement in the mistaken belief that it was the correct thing to do. During the 10-year period of turmoil, as a result of playing the game according to our own rules, bringing about "reforms" that happened to strike our fancy, disdaining any contact with the outside world and refusing to make comparisons in a calm and collected manner, our national economy was brought to the brink of total collapse. After the downfall of "the gang of four," when contact was resumed with the outside world, some comrades became so awestruck by what was new that there was a tendency, partly the result of our self-imposed isolation over a long period of time, to underestimate to various degrees our own superiorities and potential.

The quality of the products of Shanghai used to be superior to that of the rest of the nation. In recent years, however, the development of the enterprises in the hinterland has posed an esalating challenge to Shanghai. Some of the products of Shanghai have lost out to those from the hinterland so that the enterprises in Shanghai are being subjected to considerable pressure. However, the pressure of competition exerted by products from abroad is much greater than that exerted by domestic products. The bicycles produced in Shanghai are in great demand domestically. However, at the 48th International Bicycle and Motorcycle Exposition held in Milan in Italy at the end of November 1983, the bicycle display and marketing department in Shanghai failed to sell

any bicycles or spare parts because of their high cost and inferior quality. The competitiveness of our export products is generally an overall and specific indication of the level of our production techniques, our standard of operational administration and the efficiency of our foreign trade system. We must direct serious attention to the problems that have emerged as a result of the adoption of the open door policy, engage in serious research with a view to bringing about improvements, seek to upgrade and perfect our products, strive to attain the advanced world-class level and strengthen our will to engage in a test of strength in the world market if we are to turn the pressure into a driving force and to engage in the work of bringing about a series of economic reforms in Shanghai.

The process of implementing the open door policy will greatly help to promote the work of reform undertaken by economic theorists. Our economic theorists must forgo "leftist" ideas and the backward stance of closing our country to international intercourse and adopting a policy of self-sufficiency. We must engage in a wide-ranging and intensive study of the new situation, new phenomena and new special features of the modern world economy, including the modern capitalist economy, the world market, the division of labor among the nations, international trade and international finance. We must emancipate our minds, face the realities, adhere to and develop Marxist theories and discard our outdated ideas, methods and restrictions in order to give new life to the creative vitality of Marxist ideas.

For instance, in the matter of technological exchange, the idea prevails that while a great deal can be said in its favor, the monopoly setups in the capitalist countries, in order to protect their own interest, are reluctant to share their technologies and that they would rather put their new technologies on the shelf than to make them available to other people. Facts indicate, however, that while the monopoly setups in the capitalist countries may be unwilling to share their technologies, a stop cannot be put to the exchange of science and technology. The development of new techniques and equipment usually requires a sizable outlay while new products and new technologies are being replaced at an increasing speed. The competition among the capitalist enterprises and nations has further whetted their desire to make profits through the exchange of new products and technologies. That being the case, the monopoly setups are eager to make profits by selling their new products and technologies when they can still do so. That is why recent decades have seen an upsurge in the trading of technologies which accounts for about one-fifth of the total amount of world trade. It is the coexistence of monopolies and the transfer of technologies that presents an objective dialectical reason for the development of technologies under modern capitalist conditions.

Scientific and technological inventions and creations are assets common to all the peoples of the world and not something that can be monopolized

by any one nation. Sooner or later, they are certain to spread to all corners of the world unless a nation decides to go it alone instead of making use of them. The implementation of the open door policy calls for the utilization of the objective law pertaining to the development of science and technology to make use of all the favorable conditions of the external world to promote the four socialist modernizations in our nation. Marxist economists must direct their efforts toward achieving a correct understanding of the absolute and unilateral aspects of the transfer of technologies and render a correct and comprehensive interpretation of Marxism that is in line with realities.

To meet the demands posed by the development of the situation with the adoption of the open door policy, the concerned schools, scientific research and operational departments must also direct their efforts toward bringing about the necessary reforms.

The schools and scientific research departments must, on the basis of actual conditions, open wide the door for the various operational departments by devoting themselves to the study of the theories and actual problems relating to the four modernizations in our nation, assume the task of engaging in investigation and research of the operational departments on the basis of facts and provide information service and personnel training. Those who engage in the study of the domestic economy must have an understanding of the world economy just as those who engage in the study of the world economy must have an understanding of the domestic economy (the scientific research departments in the Shanghai area must also proceed from their understanding of the economy of Shanghai). An understanding of the world and domestic economies helps to pinpoint the objective and the aim of the four modernizations and thus to bring about a higher level of scientific research with Chinese characteristics.

The departments concerned must also open the door wider and seek to make use of the potential of the schools and scientific research departments to play their rightful roles. They must, in particular, take the long view in cooperating with the schools and scientific research departments, exert greater effort and spend more money in investing in brainpower by resorting to various channels and various means at various levels to develop the pioneer-type of young and middle-aged people who are highly responsible politically, who have a good understanding of the world economy, who are well-versed in strategic ideology and who are possessed of revolutionary courage and insight. At present, the schools, scientific research and other departments concerned are more or less operating on their own. Their failure to meet the needs of and coordinate with the concerned departments bespeaks the urgent need to bring about reforms so that a link may gradually be established among them.

The world is presently faced with a new technological revolution. The use of new technologies, new techniques and new materials will in the next 10 or 20 years bring profound changes in the technical level of production, the organizational structure of the production enterprises, the centers of world economy and the lifestyle in society. The new technological revolution presents us with a challenge as well as opportunities. In order to take advantage of the opportunities, to meet the challenge and to ensure a bright future, we must have a clear understanding of the interrelationship between reforms and the open door policy so that we may attend to the work of bringing about reforms and the implementation of the open door policy in a creditable manner. With the joint efforts of the concerned departments and the theorists in making use of their experiences and findings, we are certain that a new chapter will be written in the implementation of reforms and the open door policy in the economic field in Shanghai and the nation.

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FOREIGN TRADE AND INVESTMENT

ROLE OF FOREIGN CAPITAL IN SCALE OF CAPITAL CONSTRUCTION

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[Article by Zhou Shude [6650 2885 1795] Foreign Economic Commission, Guangdong Province: "Using Foreign Capital and Controlling the Scale of Capital Construction"]

[Text] Opening the economy to the outside world and, on the basis of self reliance, making use of foreign capital to import advanced technology is a strategic issue which bears on the building of the four modernizations in our country. In line with this, relaxing restrictions with respect to foreign economic trade and related policies further establishes a strategic position for our country's economic development and indicates that our country has entered a new stage in working with foreign capital. However, no matter whether we use foreign capital to build a few new projects or for the technical transformation of an industry or a few enterprises, everything hinges on the question of scale in capital construction. Under current circumstances, where there are strict controls over the scale of capital construction, should we or shouldn't we implement uncompromising control over the scale of capital construction that uses foreign capital? This is a problem that will require serious study to resolve. In this article, then, I will set forth a few superficial views and will welcome any criticism or guidance.

The Scale of Construction Using Foreign Capital Should Equate with Needs and Conform with National Strength

Construction projects that use foreign capital and capital construction carried out entirely with domestic funds have much in common qualitatively. This is to say that the scale of capital construction is shaped by the use of foreign capital and we must adhere to the principle of acting in accord with capability and proceed cautiously in ways that equate with our needs and conform to our national strength.

Under the socialist conditions in China, capital construction is the basic form for acquiring fixed assets and reproduction. According to the meaning given to administrative measures currently in effect, capital construction is mainly

a production process which guides the building, the adding on and installation of new fixed assets. This process takes the expanded reproduction of fixed assets as primary and simultaneously includes the simple reproduction of certain fixed assets. When Marx analyzed general capitalist reproduction and circulation in society he pointed out: "Some undertakings acquire a labor force and the means of production over a fairly long period without ever providing a useful product during that time; and there are other production sectors which are not only constantly or repeatedly acquiring a labor force and means of production in a year's time but which also provide the means for livelihood and production. On the basis of socialist public ownership of production we must determine the progress of the former in accord with a set scale if we are not to do damage to the latter." ("Collected Works of Marx and Engels," Vol 24, pp 396-397.) When Marx speaks here of undertakings which "acquire a labor force and the means of production over a fairly long period of time," he is referring to capital construction which includes the domestic use of foreign capital. Because capital construction must generally undergo a series of processes that involve prospecting, design, disassembly and transfer, construction, purchasing and installation of machinery and equipment, etc., it is characterized by fairly long periods of construction and rather large amounts of investment. Our country's historical experience proves that whenever the scale of capital construction becomes too large, conditions emerge whereby capital construction puts constraints on agriculture, light industry and our intellectual input, creating imbalances in the national economy, strains in the market place and a rise in prices. Consequently, we must strictly control the scale of capital construction when using domestic funds, and particularly in the use of domestic bank funds; and in the scale of capital construction in plans where funds are self-generated, we must definitely stay within the targets of the state plan. The scale of investment for building projects with foreign capital must also be realistic, be rationally applied and take circumstances into account.

After we have used foreign capital to import technical equipment, it generally requires funds for domestic support facilities, and what is imported will have to conform to and assimilate with the capacities of the domestic facilities. This is a basic principle where we must act in accord with our abilities as to the general scale for using foreign capital to build projects. Apart from the processing of imported materials, independently financed foreign trade and some of the joint venture projects between China and foreign countries which normally do not require domestic funding of facilities, in projects that do involve joint financing and deficit trade with foreign countries, a definite amount of domestically funded facilities becomes inevitable. When we speak of construction within the state plan, the funding for domestic facilities can only come from funds accumulated by the state. And a state's national income normally collected as accumulation and consumption funds is for a fixed period and amount. The state is only able to allocate accumulation and consumption funds in accord with objective laws and rationally plans the scale of capital construction and arranges for domestically funded facilities with projects that use foreign capital on the premise that it can guarantee normal progress of simple reproduction, assures requirements for rational development of sectors in high quality production and gradual improvement in the people's livelihood, and for reserves in accord with what is both necessary and possible.

Funds are a monetary expression of goods and materials; domestically funded facilities represent corresponding goods and materials from domestic supplies. This is another aspect of the question. They not only must be able to balance in total amount but also in the composition of goods and materials and in conformity with the need for variety, standards and quality. Moreover, often after a project has gone into production, it still requires some raw and processed materials from domestic supplies to meet its needs. However, material supplies and material requirements is a process of two mutually independent movements; although the flow of funds reflects the flow of materials, it is not possible for the flow of materials to advance by consistently following reality. Particularly under present conditions where the country is still recovering from financial deficits, where benefits at a majority of enterprises are low, the quality of a great many products is substandard, and products are unmarketable or overstocked, enterprises are unable to make capital construction plans when they have to consider that some materials by no means equate with or represent funds. When we speak of the objective need to balance funds and materials, we must have a more scientific understanding concerning domestically funded facilities that use foreign capital.

Under prevailing circumstances, the autonomy of enterprises and localities is increasing along with the development of production in industry and agriculture, and the savings of the masses, the budget for foreign capital and sources for bank loan credits all have increased substantially. Thus the sources for domestically funded support facilities have many channels. Since the state is financing withdrawals, more and more localities and enterprises have been financing with self-generated funds and banks are offering loans on credit. If we sustain development of the national economy, steadily increase economic benefits, have the banks extend loans under the state plan and energetically regulate the balance of supply and demand through imports and exports, we should be fairly successful in planning for domestically funded support facilities. However, we must still realize that at given periods of time local increases in state revenues may be limited. The money banks borrow and plan to use for capital construction, apart from that which covers withdrawals, is only that part which is in long term savings deposits of enterprises and individuals; this is a kind of loan waiting to be used and cannot be used without restriction. Loan money generated by enterprises themselves is largely the funds from production development, income which enterprises retain as profit, or profit after taxes. It normally is deposited in a bank, manifestly as funds for extending credit. For this reason, in rationally planning for domestic funding of support facilities, it is quite necessary to start off with the assimilative capacity and financial resources of the facility at hand.

Some comrades imagine that if domestic funding for support facilities is insufficient, they can handle the matter by borrowing foreign capital then exchanging it for renminbi at a Chinese bank. This way of doing things calls for further deliberation. First of all, doing this would add to the burden of repaying capital with interest. If, because of market changes, such loans could not be repaid when they fell due, it would affect the nation's foreign credit rating. Second, because revenue for foreign exchange is generated through renminbi circulated by state banks, in the event things were handled like this, we soon could not import the appropriate commodities and it would

also affect currency exchange and price levels. This attitude, then, requires that we maintain a prudent attitude.

#### Inability To Control the Scale of Capital Construction Will Restrict Use of Foreign Capital

To abide by the principle that we should act according to our capability in using foreign capital for capital construction by no means implies that the scale of such construction should be summarily restricted. Still less does it mean restricting the use of foreign capital in order to control the scale of capital construction. For the problem does not lie in the use of foreign capital as such for construction projects, but in whether or not we have enough capital and materials to put this kind of construction into operation and whether or not with the scale of capital construction that uses foreign capital we will be able to furnish the appropriate financial and material resources.

An important characteristic of capital construction is that during the process of preparation and construction, it may both consume a considerable amount of the means of production and consumption and stimulate related sectors to develop production; moreover, after a project goes into production, it even forms new production capacity directly expanding the supply of the means of production or consumption. We strictly control the scale of production mainly because funds are either lacking or dispersed and in the final analysis, because there are insufficient goods and materials. But because there are a great many clearly different aspects to using foreign capital to build a project and making full use of domestic funds to carry out capital construction, it is possible, under current conditions where domestic funds and materials are relatively lacking, to achieve a fairly good balance in specified total amounts and composition of funds and materials for construction.

First, the sources of funds are different. It is mainly by using foreign capital that we can remedy the gaps in demand for domestic funds. Particularly beneficial for us is that it will not be necessary for state banks to underwrite projects which attract direct investment from foreign trade nor will such projects add to the state's debt burden. Some projects do require guarantees from the state banks and while they do in fact pose a burden for the state, the risk is not so great if the projects have the capacity to make repayment. We must persist in concentrating our financial and material resources, guaranteeing strategic decisions on the state's keypoint construction while at the same time actively using foreign capital. We will make use of foreign capital both for the state's key industries and for key provincial projects and other necessary construction.

Second, the sources for materials are different. Foreign capital is a form of value in technical equipment or other material from abroad. The advanced technical equipment, steel products and other high quality materials needed by projects using foreign capital can be imported from overseas. Some projects, after approval, can use foreign exchange to purchase in the domestic market by using international market prices, supplied by the foreign capital departments. Apart from this, some projects may also use foreign exchange reserves to import new type high quality materials, etc., in accord with relevant stipulations of the state and as resolved through cooperation with fraternal provinces and

cities. This is only so long as we engage in cooperation on a premise that guarantees fulfillment of the state plan, and by no means should we assault the state plan for supply of commodities.

Again, building projects with foreign capital may have fairly high economic results. Because in themselves they are rather complex, objectively speaking, they do pose a certain risk. Consequently, they generally require economic and technical work, consultations on aspects of international law and must undergo fairly meticulous economic and technical feasibility analysis. The capacity of those projects which import foreign technology and equipment to conserve energy resources and reduce the consumption of raw materials is fairly obvious. Projects which currently use foreign capital for construction have subordinate departments which draw direct investment from the foreign trade to which its vital interests are linked and for which it is advantageous to promote the completion of the project's construction at an early date. So long as the support facilities for these projects are practicable, overall planning is well done, suitable arrangements for the proportions between and within the two major categories are handled well, they may promote expanded reproduction in the departments concerned, and the economic advantages in the construction projects themselves may be quite high.

Plans to invest in and control the number of projects to be built using foreign capital may be implemented fairly flexibly and it is also an important reason why there ought not to be categorically strict controls concerning them. Projects that use foreign capital to build consider an economic contract with the foreigner to be a prerequisite. The legitimate rights and interests of the foreign trade and economic contracts with foreigners which are ratified receive the legal protection of the state. As soon as the contract goes into effect, it must be strictly implemented and active measures must be adopted to insure that the project construction will be carried out as scheduled. In the procedure for laying out and implementing plans for the fiscal year, the method for all projects which cannot be carried out and all capital construction using domestic funds will be exactly the same. As for controlling the amount of investment in their plans, we can only take into consideration the general requirements and reports on the rate of progress regarding construction.

China carries out planned economy on the basis of public ownership, implementing the principle of planned economy as primary with a market regulation as secondary. Projects that use foreign capital are to be channeled into the state plan as a central part and are in themselves key projects for the state. Although some may not be key projects, because they make use of foreign funds and materials, they can be of service to the state's key projects both by releasing more domestic funds and materials and by enabling a firm development of a group of projects that will improve local weak links in energy resources, communications, post and telecommunications, etc., and in setting up a group of enterprises which are very necessary locally for bringing about beneficial social and economic results. We may say that this means such projects and the state's concentration of financial and material resources and guarantees for key construction are not largely contradictory but can be reconciled with one another. This is in keeping with the requirements of the strategic plan for developing China's national economy.

What we should particularly notice is that the tempo at which our country uses foreign capital has only just begun and at present it is still very small in scale. We must, under the principles of acting according to capability and proceeding in an orderly and step by step manner, become still bolder in actively using even more foreign capital. Take Guangdong province for example; since its self-initiated special policy and adoption of flexible measures, from 1979 to 1982, the province as a whole has signed as many as 21,800 foreign economic contracts and agreements. Of the more than \$4 billion invested in foreign (Hong Kong) trade, more than \$700 million actually has been used already, 98 percent of which was attracted through direct investment in foreign trade. But in the same time period, barely US\$510 million was used for local capital construction, including projects affiliated with the center, from a total available of only \$820 million. In the process of exploration and summing up in recent years, the projects in our province that use foreign capital which have evolved from mainly small in scale to ones of large and medium scale make up a fair proportion; they have shifted over from mainly non-productive to mainly productive projects. These projects are of major significance with respect to strengthening the weak links in the national economy and the technical transformation of industry. If in order to control the scale of capital construction the use of foreign capital had not been authorized, then under the very favorable international situation which now exists we would have lost an excellent opportunity. An this is something still more to be avoided.

#### We Must Strengthen Planning and Administrative Management Over Projects Using Foreign Capital for Construction.

That we should not be summarily strict in controlling the scale of construction using foreign capital is by no means to advocate anarchy or construction that is redundant or blindly implemented. In order to insure socialist economic results, we must rationally determine investment orientation, the focal point for construction and strengthen planned management and macroscopic guidance.

In line with the characteristics of projects built with foreign capital, we should introduce and fully apply planned management methods, not wholly identical with those for capital construction with domestic funds. As for finding funds for support facilities or that require state investment, and for large scale projects using foreign capital, the state needs to put an overall balance into effect which ought to list such projects in plans for capital construction by the state or in the fixed assets investment plan; plan targets with guidance should be transmitted to the lower levels by the state. The funds, raw materials, fuel, power, foreign exchange, etc., for ordinary projects that use foreign capital and conform with construction conditions and industrial plans do not require overall balancing by the state; plans are drawn up by local (provincial planning committees) specialists who make their report to the state planning committee. While the state may keep abreast of its general dimensions, it need not consider the guidance plan to come under its control, nor include state funds allotted to the provinces within its overall fiscal year quota for investment in construction, nor permit the confusion that would arise from carrying out inspections together. This part of the reported plan target, like the guidance plan may not be fulfilled or it may be overfulfilled. In accord with this two-part planning, what the planned overall target for investment is

for all capital construction and what is actually fulfilled of the overall investment target at year's end, by projects using foreign capital, again should be reported separately to higher levels by the planning departments. And those projects which make use of foreign capital, after examination and ratification in accord with set procedures and with the limits of their examining authority, should promptly take the contract as the primary organizational implement and by every means possible plan to cut down the period of construction so as to bring the benefits into play as quickly as possible.

To plan for and make good use of domestic funds for support facilities is extremely important. In terms of the construction projects themselves, as a result of their having used foreign capital and commodities, a one-yuan affair could amount to several yuan. After foreign capital is used it must of course be repaid in various forms, but as long as the projects are vitally needed and the economic benefits are relatively high after they are completed and go into operation, then it will be an account worth rendering. The state and provinces may, in a planned way, arrange to make partial use of funds for technical measures or investment in capital construction to domestically fund support facilities for projects, simultaneously strengthening management and supervision. In this way, benefits from the overall investment will be better still.

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CSO: 4006/221

## FOREIGN TRADE AND INVESTMENT

### OVERVIEW OF 35 YEARS OF FOREIGN TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 9, 27 Sep 84 pp 3-5

[Text] It has been 35 years since the great People's Republic of China was founded. As the nation joyously celebrates its 35th anniversary, we should review the glorious history of our foreign trade, summarize experience, build upon our achievements, overcome weaknesses and press ahead with our work. Such a review has tremendous implications for our efforts to open up a new phase in foreign trade.

New China's foreign trade was founded on the triumph of the people's revolution. Before liberation, our foreign trade was an appendage of imperialism and semi-colonial in nature. We had absolutely no say in its conduct. After liberation, we abolished all imperialist privileges in China, exercised strict control over foreign trade and returned to the people their autonomy and self-determination in trade matters. Furthermore, we confiscated all bureaucratic-capitalist import and export enterprises, established and developed state-operated foreign trade enterprises, and gradually completed the socialist transformation of private import and export businesses. Henceforth, a solid foundation was firmly in place for China's socialist foreign trade. This marked a historical turning point in China's foreign trade and paved the way for all our subsequent progress and achievements in that area.

Since 1949, the total value of China's imports and exports has risen significantly on the basis of growing industrial and agricultural production. It rose to 40.7 billion dollars in 1983 from a mere 1.1 billion dollars in 1950, a 35-fold increase. The average annual growth rate was 11.4 percent, slightly higher than the growth rate of total industrial and agricultural output value for the same period. Exports, valued at 550 million dollars in 1950, amounted to 22.2 billion dollars in 1983, a 29-fold increase. The average annual growth rate was 11.9 percent, which exceeded the average annual growth rate for world exports. It should also be pointed out that we have managed to maintain trade equilibrium over those years. As early as the first years of the People's Republic, we succeeded in fundamentally reversing the unfavorable trend characteristic of old China under which we ran a massive trade deficit year after year.

In the wake of the development of industrial production, the commodity mix of our exports has also changed for the better. The share of manufactured goods

in total exports has risen from 20.6 percent in 1953 to 53.8 percent in 1983 while that of primary products has dropped from 79.4 percent in 1953 to 46.2 percent in 1983. Except for the economically troubled early 1960's, most of our imports have been technology, equipment and production raw materials, with production materials accounting for 80 percent of all imports. Since the establishment of the People's Republic, changes in the commodity mix of our exports and imports have not only eliminated its former backwardness but also fully demonstrate the gratifying results of the rapid development of China's industrial and agricultural production.

China's foreign trade relations have also made notable progress over the past 35 years on the basis of equality and mutual benefit. In the early years of the People's Republic, we had trade relations with only 46 countries and regions. Today, we are doing business with over 170 nations and regions, of which 92 have signed inter-governmental trade agreements or protocols with us. Trade intercourse has promoted mutual understanding and friendship between different peoples and often leads to the establishment of formal governmental relations and the safeguarding of world peace.

In short, our foreign trade achievements for the past 35 years are formidable. But they are hard-won victories.

After the entire country was liberated, our party lost no time in restoring and developing the national economy which was in a shambles. Accordingly, we set out to organize imports and exports in a planned way. During the period of the First 5-Year Plan, we imported from the Soviet Union 156 plants, which played an important part in laying the preliminary foundation of China's heavy industry. We also supplied the Soviet Union with needed strategic materials which contributed to Soviet economic construction and increased the market supply of certain goods. During this period, we established friendly and cooperative trade relations with 54 Asian-African nations and regions. The rice-rubber agreement we signed with Sri Lanka sealed the fate of the economic embargo and blockade imposed against us. In addition, we successively entered into official trade relations with various countries in northern Europe and signed economic and trade contracts of a people-to-people nature with businessmen and industrial and commercial enterprises in numerous countries.

In the early 1960's, our national economy suffered a serious setback. To overcome our difficulties, we adopted the policy of "readjust, consolidate, replenish, and improve" and made food our chief import. As a result, the food market was stabilized and people were ensured food supplies. In 1962 we began to import technological equipment from Japan and establish trade relations with western capitalist nations. Up to 1968, we had imported from them 84 items of equipment and plants which proved to be essential to raising the productive capacity of some sectors of our economy and partially filled our industrial void.

China's foreign trade was seriously disrupted and sabotaged during the "Cultural Revolution." From 1966 through 1969, exports declined with each passing year. Only after the signing of the joint communique with the United

States and the establishment of diplomatic ties with Japan did foreign relations slowly begin to recover. Foreign trade, too, made considerable progress. But other problems soon arose.

After smashing Jiang Qing's anti-revolutionary clique, China's foreign trade gradually revived and expanded. The Third Plenary Session of the 11th CPC Central Committee held in December 1978 laid down the strategic policy of shifting the focus of our efforts to socialist modernization. To speed up such construction and with China's actual circumstances in mind, the Central Committee decided to open up China to the world and adopt flexible economic policies at home. The Central Committee made it clear that China's socialist modernization should make use of two kinds of resources--domestic and foreign, open up two markets--internal and international, and acquire two kinds of expertise--organizing domestic construction and developing foreign economic relations. It demanded that we expand economic and technological exchange with the world on the basis of equality and mutual benefit, make use of foreign funds, introduce advanced technology, develop foreign trade and use others' strong points to offset China's weaknesses so that we can become more self-reliant. In effect, the Central Committee confirmed the strategic role of foreign trade in China's socialist modernization. China's foreign trade has entered a new historic era.

After the Third Plenary Session, as the party went about implementing its various economic policies, industrial and agricultural production across the nation grew by leaps and bounds, laying a solid material base for our export drive. At the same time, the state has set up and refined a variety of export production centers and, through foreign trade channels, extended different kinds of loans to further stimulate the production of export commodities. To expand exports, we are also actively pursuing the policy of "using imports to foster exports" and using a range of flexible devices. Not only have we revived such pre-"Cultural Revolution" practices as processing, we have also adopted such unprecedented ones as assembling, compensatory trade, joint production, joint ventures and leasing. More than ever before, we are paying close attention to improving product quality, increasing the variety of design, size and color, improving packaging and speeding up product upgrading and succession so that our products stand out on account of their quality. We have tentatively reformed the foreign trade system, carried out a number of pilot projects merging industry and trade, opened up new international trade channels and mobilized all departments' and units' initiatives. Today the entire foreign trade sector is flourishing.

Our exports have grown tremendously over the past 5 years. Exports in 1983 rose 128 percent over 1978, before the Third Plenary Session. The average annual growth rate was 17.9 percent, much higher than the average annual growth rate of our industrial and agricultural production, which was 7.9 percent. Our share of world exports rose to 1.25 percent in 1983, when we became the world's 18th largest exporting nation. In 1978 we were only No. 32 and we accounted for just 0.75 percent of total world exports. The total value of our imports in 1983 amounted to 18.5 billion dollars, a 70 percent jump over 1978. The average annual growth rate was 11.2 percent. Among China's imports, two-thirds are plants, equipment and production raw

materials. During the past 5 years, we imported a total of 21.1 billion dollars worth of equipment and technology, or 23.3 percent of total imports. Of this amount, 10.4 percent, or 9.4 billion dollars, were used to purchase whole plants. In addition, an appropriate amount of daily consumer products and commodities were imported. All these materials were instrumental in strengthening China's four modernizations drive, promoting the development of agricultural and industrial production, and improving people's daily life.

Our foreign trade achievements can be attributed to the open door policy, the joint efforts of all foreign trade workers, and the enthusiastic support of all regions and departments under the leadership of the Central Committee. Henceforth we must firmly carry out the lines and policies laid down since the Third Plenary Session of the 11th CPC Central Committee and the spirit of the Second Session of the 6th National People's Congress. We must further enforce the open door policy, reform our foreign trade system, and strive for the integration of industry and trade on the one hand, and the separation of politics from enterprises on the other. We should be more flexible and bold in the way we make use of foreign capital and import advanced technology and work even harder to bring about the economic take-off of special economic zones and new coastal cities. We believe even greater achievements lie ahead for China's foreign trade.

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FOREIGN TRADE AND INVESTMENT

EXPANSION, IMPROVEMENT OF CLOTHING EXPORTS DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 10, 27 Oct 84 pp 24-26

[Article by Zhong Quansheng [6988 3123 4141], Assistant General Manager of the China Textile Import-Export Co: "An Examination of the Strategy for Expanding Clothing Exports"]

[Text] The world clothing market is very large and is expanding very rapidly. In 1982, world clothing exports (including textiles and knitwear) totaled U.S. \$41.0 billion, a 2.25-fold increase over the 1973 level of U.S. \$12.6 billion, while exports of yarn and yardage goods increased at an average annual rate of only 9 percent.

China's garment exports have expanded very rapidly since they began in 1954, have grown especially fast after the open-door policy was implemented and in 1983 earned U.S. \$880 million and accounted for 26 percent of China's total textile exports, thus becoming one of China's major export commodities.

Because world demand for consumer goods is steadily growing, the international clothing market is also bound to expand. Nevertheless, the major ready-made clothing importers are now adding more and more quota restrictions, and developing countries (and regions) are steadily upgrading their ready-made garment industry, vigorously developing high-priced goods and continuously improving their competitiveness. These developments present severe challenges to China's efforts to expand clothing exports. And to maintain the competitive advantages of our goods on the international market and to adjust to the trends toward higher-grade and higher-priced goods, we should adopt the following strategy: While steadily improving economic results, we should vigorously expand exports of high- and medium-grade garments, increase the number of processing levels we employ and advance toward higher quality and greater fashionability.

I. The Necessity and Possibility of Expanding High- and Medium-Grade Garment Exports

A. It is Imperative That We Expand Exports of High-Grade Garments

The international clothing market is primarily concentrated in the industrially advanced, capitalist countries of the West, such as the United States, Canada and the EEC, which currently account for about 65 percent of the world's total

clothing imports. These countries have recently begun to apply quota restrictions on imports, and the breadth and level of these quotas have increased year by year. China also targets most--60 percent--of her clothing exports at these countries. And because these countries' restrictions are steadily growing more severe, the volume of our clothing exports cannot expand much more. Nevertheless, the quota system employed by these countries applies only to volume and does not affect quality or value.

Faced with this situation, the leading garment-exporting countries and regions are vigorously devising ways to improve the quality and market value of their goods. For example, Xianggang, the world's leading clothing exporter in terms of value, has strived since 1970 to make her goods more diversified, more sophisticated and more fashionable. Consequently, even though Western countries have steadily increased their import restrictions, Xianggang in recent years has still been able to greatly increase the value of her woven-garment exports, which reached U.S. \$3.967 billion in 1983.

#### B. The Expansion of High-Quality Clothing Exports Lays the Groundwork for Success in Competition

The primary clothing importers are developed, capitalist countries and have very high demands with respect to clothing quality and variety. These demands continue to rise with the development of science and technology and improvements in living standards. Thus to seize sales initiative and prevail in the marketplace, the leading clothing exporters have employed diversification, higher quality and new styles as their principal weapons.

At present, the quality and variety of China's clothing exports do not fully meet the needs of the capitalist market primarily because of the lack of variety in fabric, design and color; the slow response to style changes; the requirement of large orders and long delivery times. If we do not strive to change this state of affairs by adopting new strategies, we will not be able to gain a foothold in, and indeed will face the danger of being driven out of, the increasingly competitive capitalist market.

#### C. The Expansion of High-Quality Exports Is the Key to Improving Economic Results

In the capitalist market, clothing is divided into high-, medium- and low-grade items. At the initial stages of development, clothing exporters normally begin at the middle or low ranges of the market. But after these exporters reach a certain level and establish something of a foundation, they strive to develop high-grade clothing. For by selling such goods, exporters can improve their reputations, deepen market penetration and, more importantly, obtain higher prices and better economic results.

Some of China's clothing exports have already entered the middle and high ranges of the capitalist market, and such famous clothing firms as Levi-Strauss, Sergio Valente, Kennington and Van Heusen have placed orders at many of our seaports. The name-brand goods produced for these firms have

great requirements with respect to workmanship, are high-grade clothing, may be termed fashions or "ready-to-wear fasions" and can be mass produced. In short, China already possesses the basic conditions for expanding her export of medium- and high-grade clothing. Thus, in terms of export strategy, we should continue expanding sales volumes of goods we export little of and increase sales to regions that have no import restrictions. But we should also shift the emphasis of our work to improving product quality and to expanding exports of high-grade clothing so as to "succeed through quality" in the international marketplace and to improve economic results.

## II. Measures That Should Be Adopted To Expand Medium- and High-Grade Clothing Exports

To expand clothing exports, we must more conscientiously implement the policies of opening up to the outside world and of invigorating the domestic economy, and we must adopt positive measures in industrial production and trade practice.

### A. We Must Strengthen Quota Management

The policies of "opening up to the outside world and invigorating the domestic economy" are advancing, and if we wish to upgrade our export mix and increase the value of our exports we must strengthen centralized management and quota application and enable quotas to exert their proper effect. Selectivity should be employed with respect to distribution quotas, and name-brand products, high-grade goods and high-priced items should be taken care of first, while cheap goods should be strictly limited. In the future, we must conscientiously apply the principle of selecting the best so as to employ quotas more effectively and promote improvement in product quality.

### B. We Must Accelerate Technological Transformation

Facing an increasingly competitive capitalist market, the foreign clothing industry has vigorously employed advanced technology and highly efficient machinery and equipment in order to improve productivity and product quality. In recent years, production management and quality control have been increasingly computerized.

The machinery, equipment and technical management employed in China's garment industry have improved greatly in recent years but remain backward in comparison to advanced Western nations, which state of affairs slows product upgrading and replacement. There must be advanced equipment and strict quality control if clothing is to be high-grade and high-priced. One direction we might take is to improve clothing production technology, improve production management and increase computerization. First, we must introduce computerized layout and pattern cutting, make layout more scientific and thus save on raw and processed materials. According to statistics, computerized layout uses 10 percent less raw material than does manual pattern cutting.

### C. We Must Actively Expand Fabric Production for High-Grade Clothing Exports

Fabric provides the material basis for the expansion of clothing exports. Because styles change rapidly in the capitalist market, fabric must be continuously redesigned. Popular fabrics generally have a good appearance; feel nice to the touch; are of good texture, properly afterfinished, shrink-proof, wrinkle-free and easy to wash and iron; and are rapidly changed in design and color.

China relies on domestic production to supply most of the fabric for her clothing exports, and only a very small portion of that material is imported or supplied from abroad. China's textile, printing and dyeing industries have invested much work and achieved much success in creating new products and improving fabric quality. In general, however, Chinese fabric is not very responsive to changes in design and colors, is delivered slowly and requires large orders; old products are not very high in quality; and product replacement is slow. In order to ensure supplies of the fabric needed to expand clothing exports, we must rapidly improve the quality of existing products. At present, pure cottons, corduroy blends, durable woolens, lightweight sailcloth, CVC inverted mixed weave [CVC 0227 3236 4741], linen, flax and other blends are selling fairly well. Nevertheless, Chinese cloth is inferior to some of that produced abroad in terms of resistance to shrinking, sheen, dyeing, softening and afterfinishing. Thus we should quickly adopt measures, carry out technological transformation or import needed equipment in order to enable our products to catch up with or surpass advanced world levels. Meanwhile, we must also strengthen market research and strive to test and produce marketable new fabrics. In view of conditions in China's textile industry, we should continue to rely primarily on domestic production to supply the fabric needed for the expansion of clothing exports.

China is richly endowed with the raw materials used in the textile industry and possesses a fairly good foundation in the industry, and the quality of her gray cloth is famous throughout the world. As for clothing exports, the key problem is that we are behind in printing, dyeing and afterfinishing. Thus I suggest that qualified garment-industry departments be permitted to acquire their own small-scale printing and dyeing equipment so as to improve their responsiveness to fabric changes.

### D. Actively Develop Processing of Imported Fabric

Realistically, we would encounter some difficulty if we were to rely solely on domestic production for the material and accessories needed to expand high-grade clothing exports. To give full play to China's advantages and to expand clothing exports vigorously, we must actively develop processing of imported fabrics.

Since 1979, China has also been engaged in the clothing reexport trade, in which fabric is imported for processing. Nevertheless, there is no consensus on this matter, measures have not proved very effective and thus this trade has not expanded rapidly enough. We must further study and implement the

open-door policy, draw upon foreign experience in garment export and actively develop this trade, which provides such advantages as small-lot production, many designs and colors, fast delivery and low costs and can improve and enrich China's clothing export mix. Imported fabric and accessories can also be used as an important reference which we can use to improve domestic production and trial-produce new products.

#### E. We Must Strive to Create Our Own Name-Brand Clothing

After many years of effort, China has won considerable prestige on the international market for her clothing. For example, Guangdong's durable woolen garments, Beijing's cotton-polyester shirts, Shanghai's slacks, Tianjin's flannel shirts, Dalian's velveteen and Shandong's toweling garments are all renown at home and abroad, and some goods rival famous foreign brands. Nevertheless, most of the high-grade garments China exports are produced under foreign labels and under special license. We believe that, until we establish our own brands, we should do a little more of this type of trade with foreign businessmen, because these products have already achieved a reputation, and marketing networks have already been established for them. By producing medium- and high-grade garments for famous foreign firms, we can earn prestige for our own clothing exports and lay the groundwork for the development of our own brand names.

The establishment of brand names is an important means by which to promote sales of high-grade garments, and in the long run we must establish our own labels on the international market. Thus we must adopt practical measures and emphasize this work. One of the keys to establishing a brand name is to strengthen international-market survey work and to improve design capability. To do this work properly, I propose that we create a research agency for clothing exports, which agency would develop our own designs, create internationally popular styles, rapidly disseminate information domestically and organize all forces to develop foreign-trade work.

However, to expand exports of high-grade clothing and establish our own brand names we must, on the domestic front, strengthen unified management and assign production to specific entities and, on the foreign front, select appropriate customers and create marketing networks.

It will be very hard to expand high-grade clothing exports, and many problems persist on all fronts. Yet I believe that everyone's enthusiasm will be further aroused as we continue to implement the open-door policy and structural reform. And with the joint efforts of departments in charge of industry and foreign trade we will surely attain our strategic object.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

TIANJIN BANK FOREIGN-EXCHANGE LOANS--The Tianjin branch of the Bank of China achieved good results in using foreign capital to support technology importation and to promote enterprise technical transformation in 1984. According to statistics, the branch approved and issued various categories of foreign-exchange loans on 205 occasions, totaling more than \$270 million, showing a 176-percent increase over 1983. There were 49 cases of foreign-exchange trust investment in 1984, totaling more than \$61 million, a 477-percent increase over 1983. [Excerpt] [Tianjin TIANJIN RIBAO in Chinese 4 Feb 85 p 1 SK]

LIAONING OPENS CITIES--With the approval of the State Council, Anshan, Fushan, Dandong and Jinzhou cities of Liaoning Province were designated as Class-A areas opened to the outside world. According to relevant stipulations of the state, foreigners who enter Class-A areas for business talks, tours, or visits do not have to go through port transfer or entrance procedures. [Text] [Shenyang LIAONING RIBAO in Chinese 4 Feb 85 p 1 SK]

NEI MONGGOL JOINT VENTURE--Hohhot, 12 Feb (XINHUA)--The Nei Monggol Nationality Economic and Technological Consultation and Development Corporation was founded in Hohhot 11 February. It is a joint venture, set up by Nei Monggol and the Hong Kong Songbai Clothing Manufacturing Company, Limited. The main business of the corporation is to act as an agent between business concerns inside and outside the region and plants and enterprises at home and abroad in importing equipment and facilities, absorbing capital, and exporting products. It will also act as the general agent for the China Dongfang Leasing Company, Limited, in the autonomous region. [Text] [Beijing XINHUA Domestic Service in Chinese 1306 GMT 12 Feb 85 OW]

ESTABLISHMENT OF 500 TRADE CENTERS--According to relevant statistics, 498 trading centers already have been established in 27 provinces, cities and autonomous regions, including 400 for manufactured goods and 98 for agricultural subsidiary products. The trading centers set up at each location can be characterized as follows: (1) Economic entities: In the main, these are self-run centers simultaneously operating as business agents. Trade centers of this kind exist in four different forms: the first is a two-in-one entity or trade center and

wholesale company, with independent accounting and management and which is solely responsible for its own profit and losses. Second are various wholesale companies, stations and other participating enterprises run by the state under unified leadership and independent management. Third are those which were independently established on the basis of original trusts, and fourth are reorganized new trade centers. (2) Loose coalitions: This is an economic union in diverse forms, generally carried out under unified leadership, with centralized management, separate accounting for each managerial section and which assumes sole responsibility for its own profit and losses. (3) Service centers: These trade centers primarily supply and provide service facilities within the business arena, collect rents and administrative costs and generally do not themselves engage in business management. Although the trade centers have not been established for very long, by breaking through restrictive regulations and regional and enterprise boundaries, they all clearly have done their part in giving full play to the initiative of key cities and with respect to reducing links, opening up the marketplace, invigorating management, and so on. [Text] [Beijing LIAOWANG [OUTLOOK] in Chinese No 45, 5 Nov 84 p 6] 12917

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## SPECIAL ECONOMIC ZONES

### ON SHENZHEN SUPPORT FOR HOUSEHOLDS SPECIALIZING IN EXPORTS

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 11, 27 Nov 84 pp 32, 37

[Article by Tang Huozhao [7081 0129 3564]: "The Shenzhen Special Economic Zone Actively Supports Export Commodity Producing Specialized Households"]

[Text] Heartening results were achieved in the Shenzhen Special Economic Zone [SEZ] in 1983. Profits were three to four times larger than last year and one-third more foreign exchange was earned than in 1982, making Shenzhen the "premier" city on the country's foreign trade line. Besides fully utilizing the special zone's policies and Shenzhen's "geographical advantage" adjacent to Hong Kong, one very important experience is the zone's active support of production from export commodity producing specialized households.

There has been a fundamental change in Shenzhen's economic structures, particularly in agricultural production, since Shenzhen became an SEZ. Traditional agriculture is becoming modernized and developing in the direction of export commodity production. Many specialized households have appeared and commodity production is rapidly developing. The specialized households show high productivity, a high commodity-production rate, and a high land-utilization rate. The Shenzhen SEZ vigorously supports these households and actively works with them to bring into full play the role of specialized households in the production of export commodities.

#### I. Production Distribution Promptly Readjusted, Structure Changed, Various Export Commodity Production Bases Worked On, Various Specialized Households Supported and Export Commodity Production Developed

The Dalang sloping plain of Songgang Red Star village, Shenzhen, is a barren coast. In the past rice and sugarcane were grown here to no avail because it is a coastal area. Last year the village government signed an 8-year development contract with the Wen Xuan [2429 6513] specialized household and six other peasant households. Each invested 7,000 yuan or a total of almost 50,000 to dig a 150-mu fish pond. Last spring, after 1 year of careful management over grass and silver carp, carp, striped mullet, [wufou yu 3527 7333 7625] and other fish fry, there are now silver carp and carp that weigh more than 1 jin. The fish were

regularly put on the market for an initial profit of almost 10,000 yuan. It is estimated that the initial investment can be recovered in 3 years and a profit shown after 4 years.

According to the supply and demand for fresh agricultural and sideline products on the Hong Kong market, the Yantian office is fully developing the area's strengths of convenient transportation, getting goods to market early, and high prices and big profits. The office is also readjusting the product distribution to a large extent. A 3,500-mu area formerly used for growing grain will be reduced to 2,800 mu. The area for growing vegetables will be expanded from 180 to 250 mu, the area for sweet potatoes from 310 to 560 mu, and the fishpond from 308 to 400 mu. The number of specialized households engaging in export commodity production increased from more than 80 to over 100, greatly increasing the number of these specialized households and the commodity production.

## II. Prompt Lending to Export Commodity Producing Specialized Households Actively Supported

The city's Agricultural Bank implemented relaxed credit policies, seen first in loans, to actively support the production of export commodity producing households. In 1983, the bank lent more than 17 million yuan to specialized and key households, a 1.2-fold increase over 1982. The vigorous loan support allowed the specialized households to develop export commodities boldly and with peace of mind. The Fusheng Chicken Farm in Dakang Village, Henggang District, was started by Liao Fulin's [1394 1381 7792] specialized household. They invested 120,000 yuan to build a chicken coop larger than 900 m<sup>2</sup>. While planning the farm, the household ran into money problems. The village government and the business institute of the Agricultural Bank provided prompt support. A loan of 90,000 yuan was given to them and two other specialized households that raise chickens to solve money problems so that they could build chicken coops and buy chicks. In 1983, the Fusheng Chicken Farm received 42,700 chicks in 8 batches. The farm provided to the foreign trade departments for export more than 15,300 plump chickens. The income was 90,751 yuan. An average chicken costs 6 yuan. Subtracting costs and expenses, each chicken brings a net profit of 1 yuan. If they should run into unexpected problems, export commodity producing households, with poor finances and weak forces, would have a hard time dealing with them and resuming production. All levels of government in the SEZ and financial organizations are very concerned about this problem. They normally are thoroughly acquainted with the production situation of specialized households, and help them solve specific problems. Last year the two specialized households that raised ducks under the authority of the Yantian office, Liu Guanqiang [0491 0385 1730] and He Yuren [0149 3768 0088], invested HK 80,000 yuan to raise 8,000 ducks, but 2,000 died and more than 10,000 yuan was lost due to poor management. The office and business institute gave prompt help and support to purchase another 3,400 ducklings. This year, the two households put three batches

of 4,000 ducks, greater than the year's quota, on the market. Lu Yingtong [4151 5391 2717], a specialized hog-raising household, invested more than 30,000 yuan to raise 250 hogs. Last year, typhoon number nine blew down the pigsty and killed more than 20 animals, at a loss of several thousand yuan. With the support of the local government, production was speedily resumed. This year Liu has great confidence and plans to raise 360 pigs.

While financial departments relaxed their credit policies for export commodity producing specialized households, they also further improved business practices. The departments were given the authority to give loans to basic-level enterprises and credit cooperatives, stressing the examination and approval of loans to specialized households. The departments can allow specialized households to open accounts independently. They can arrange for transfer accounts for current cash account specialized households. The financial credit support for export commodity producing specialized households promoted the development of production and allowed it to develop swiftly in the direction of being specialized, socialized, and commercialized, and to meet the needs of the special zone's export trade. In June of last year, Chen Jinquan [7115 6930 0356] and five specialized households from the Oyster Works Brigade, Shajing District, who were good at raising oysters, formed the Luo-Sha Oyster Co in coordination with the fisheries supply departments of the Luohu District. The city Agricultural Bank promptly gave them a 200,000-yuan loan. This helped them develop 10 suspended growing beds. Two months after they went into operation they earned more than KH\$76,000 and the net profit was more than KH\$20,000. This year this same household joint business was supported when it began to process oil. It was lent 25,000 yuan. Financial organizations' credit support for specialized households can promote the development of export commodity production in the special zone. It is proper that this also promotes a cash flow.

### III. Market Supply and Demand News Promptly Provided, Ways and Means Devised for Export Commodity Production Bases

Southerners, particularly people from Hong Kong and Macao, love seafood. Practically every dish, from home cooked meals to banquets, all contain shrimp. The supply of shrimp cannot meet market demand and there is a shortage of shrimp breeding stock. Following a thorough investigation the Department of Supply and Marketing of the China National Fisheries Corp intimately understands demand factors about shrimp breeding such as the varieties and quantities of shrimp stock, and selling prices in various areas, including Hong Kong. The department promptly transmitted this to the Shantou Horn Shrimp Fry Farm. Based on market information, the farm added new varieties of fish, such as new prawns, moji [1075 0679] prawns, banjie [3803 4634] prawns, etc. The farm is also determining the good and bad varieties via gifts to clients or small batches of shrimp fry sold at low prices. The farm had good results in competition on the shrimp fry market by utilizing these public appraisal methods. A Japanese businessman set up a shrimp farm in the Fuyong District of Shenzhen. He used to purchase shrimp from Taiwan; the breeding stock was shipped to Hong Kong's Kai Tek Airport for reshipment, at huge losses and high

costs. In April of last year, after he tried raising a small batch of the Shantou Horn Shrimp Farm's fry, he discovered that the fry were stalwart, large bodied and had a high survival rate. Moreover, transportation was convenient and the price cheap. He now raises only Shantou Horn fry. This year he placed an order for 32 million fish. The stock that was formerly always bought from Taiwan and the Hong Kong Nantou Desheng Shrimp Farm is now entirely bought from Shantou Horn. This year the businessman bought 13.68 million fish. Thanks to the exchange of information, the Shantou Horn Shrimp Fry Farm has acquired a place in the shrimp farm of a foreign businessman in Shenzhen and is breaking into the Hong Kong shrimp fry market and the neighboring shrimp farms in Guangdong Province.

Upon the basis of stressing market information, the concerned departments in Shenzhen are also actively providing services to the export commodity producing specialized households. There are 196 chicken farms in the Shenzhen SEZ, many of which are specialized households or contract households. The farms raise 6 million birds. In the past, expensive foreign chicken stock was always imported. This put additional cost burdens on the producer and meant shelling out KH\$12 million in foreign exchange every year. The city's Agricultural Bank supports specialized households with breeding experience and farms that have the right conditions to develop breeding stock production. The bank lent 64.5 million yuan to solve the problem of breeding stock and lighten the burden on specialized households. Since the end of last year the economic results of specialized households have improved and basic self-sufficiency and prosperity have been achieved.

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CSO: 4006/277

## LABOR AND WAGES

### IMPORTANT ROLE OF RETIRED WORKERS OUTLINED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 11, 15 Nov 84  
pp 30-32

[Article by Chen Huili [7115 1920 7787] and Gu Renzhang [7357 1103 4545]: "An Important Aspect of Developing Human Resources--Suggestions for Giving Full Play to the Role of Shanghai's Retired Workers"]

[Text] The importance of human talent must be raised to a strategic and high level of understanding. China is a less advanced developing socialist nation, but has a great deficiency of talented personnel. It is a pity that the problem of how to fully use China's limited human resources and how to use these resources to the greatest extent possible for China's four modernizations has not yet elicited a great deal of attention.

Below, we have provided a simple introduction of the situation of the human resources of Shanghai's retired workers and have made appropriate suggestions.

#### I. The Basic Situation with Shanghai's Retired Workers

First, we feel that Shanghai's retired workers should be considered to be valuable human resources--a treasure house of human talent, and they are one of the country's most valuable riches. Because they are a specialized contingent of human talent that has been trained for several decades in China and both possess an abundance of every type of specialized knowledge and technology and have accumulated abundant experience, it is extremely difficult to use other forces to replace them. It is conceivable that if we take this contingent of specialized talent and use every means available to give play to this talent in Shanghai or by transporting it to other areas of the country, we will then be able to create a tremendous amount of wealth for our country and society. This is a matter that absolutely cannot be treated lightly.

Based on our preliminary investigation, at the end of 1983, Shanghai had a total of 1,221,900 retired workers, or 25.3 percent of the total work force of 4,830,100 people. One-third of this figure is composed of old workers who were naturally replaced before 1978, and most of these are old workers who took part in work before liberation. Many are older

than 70, they are elderly and weak and are unable to assume more tasks. The other two-thirds, or 800,000 people, retired after 1978, and 300,000 of these retired ahead of time in the name of "having completely lost labor ability" in order to solve the problem of their children being unemployed. Most of these people started working on the eve of the revolution or in the 1950's. Many of them were originally the backbone in production and technology management and possess a certain educational level and every kind of specialized knowledge, technology and abundant experience. Because we lack special statistics, the different types of specialized personnel and skilled craftsmen have not yet been broken down into definite figures. Based on 1983 data, it is estimated that the different specialized personnel constitute 10.1 percent of the total work force (according to "Bulletin of Important Figures from a General Survey on the Present Situation of Shanghai's Specialized Workers in 1983" by the Shanghai Forecast Office for Talented Personnel) and 25 percent of retired workers are skilled workers above Level 5 (according to the technical cooperation report of the Shanghai Federation of Trade Unions). Out of 1.22 million retired workers, approximately 120,000 are specialized personnel with a technical secondary school level of education and above or with professional and technical titles, and approximately 300,000 are skilled workers above Level 5, more than 200,000 of whom have healthy bodies and can perform their jobs competently. These figures are ample proof that Shanghai's retired workers are truly a tremendous treasure house of human talent. Currently, only 49,000 out of 1.22 million retired workers are being used in or outside of Shanghai (according to a neighborhood registration from January to April 1984). The rest are scattered throughout every corner of the city: some are on the streets, lanes and alleyways participating in all kinds of public welfare activities and volunteer work and some are idle in their homes. Up until today we have not paid attention to these valuable human resources.

## II. The Significance of Fully Utilizing the Treasure House of Human Talent of Our Retired Workers

First, fully utilizing this portion of our human resources helps to generally improve the economic results of China's enterprises. In 1983, on the average China earned only 23.2 yuan in profits for every 100 yuan in funds; Shanghai realized 65.6 yuan in profits for every 100 yuan, 183 percent higher than the national average and 42 percent higher than the average of the 14 coastal cities of 46.1 yuan. The national average of productivity of all workers is 13,049 yuan; in Shanghai it is 28,684 yuan, 119.8 percent higher than the national average and 31.9 percent higher than the average of 21,742 yuan in the 14 coastal cities. An important reason why these enterprises and regions for a long time have been unable to raise their economic results or have been slow about raising their economic results, other than for such detrimental factors as pricing, transportation conditions and conditions for cooperation, is that technological strength and the

quality of personnel have been substandard, and human resources are the decisive factor. If we can be assured of using the treasure house of human resources to change backward enterprises that have been operating at a loss for a long time and improve their economic results to an advanced level, this will be extremely significant for fundamentally changing China's present financial situation and for creating a more flourishing economy in the future.

Second, spurring on the rapid development of the entire rural economy will have a great effect on promoting the development of rural and small town industry. Currently, rural and small town industry is springing up like bamboo shoots after a spring rain. However, in many of the 1,346,000 rural and small town enterprises, a large portion of the technical equipment is backward, the quality of the workers' technology and professional level is low, there is a deficiency of talented personnel and this situation has greatly hindered the development of rural and small town industry. Without a rapid development of rural and small town enterprises, there cannot be a rapid growth of the entire rural economy. If peasants cannot become well-off, there will not be a vast domestic market. Thus, Shanghai must be geared to the needs of the entire country, mobilize all possible forces and actively support the development of every type of rural and small town enterprise. The contingent of retired workers is a strong force in this effort. With regard to Shanghai, if the entire country is producing and improves its economic results, on one hand, this can reduce the burden on Shanghai to provide the nation with traditional products and will make room for Shanghai's human and material resources to be used to develop new technology, initiate new areas of production and more rapidly promote technological advances; on the other hand, this can also provide favorable conditions and can help promote a gradual change in Shanghai from a "production oriented" single-function city to a multi-function city that has fairly advanced industry, trade, finance and every type of service industry. This will give even better play to Shanghai's role as an economic center.

Third, we can gain time and change the present situation of the low quality of our contingent of workers. An important way to raise the quality of workers is to develop worker training and develop full-time schooling. Yet the training of talented personnel, especially the training of middle and upper level talented personnel, requires a relatively long period of turnover in training. College students who are currently being trained in schools will not be able to gradually begin to have an effect until after 1990 when they have had a definite amount of actual on-the-job training, yet they will be limited in number and will be unable to meet the present needs of production and management activities. If we are able to fully utilize our retired workers and give play to their role of passing on experience, giving help and setting an example for the young workers, we can then fill the gap of the current shortage of talented personnel. This will be extremely helpful in raising the

political and technical quality of the contingent of workers, solving technical problems in production, promoting technological advances, improving management and administration and enhancing economic results. There are currently more than 11 million retired workers in the country, and even if we only utilized 10 percent, there would be more than 1 million workers (in fact, we would certainly exceed this number by a good amount). Among Shanghai's retired workers there are at the least more than a few hundred thousand workers who possess intelligence resources, and if we could fully utilize them and mobilize their resources, it would be difficult to figure out the capabilities that we would be able to give play to.

In short, the tremendous human resources that retired workers possess (in no way can we consider these retired workers to possess average labor resources, nor should we regard them as a burden on society) and their capability, role in and contribution toward the four modernizations must be given full attention and appraised from a high-level, strategic view of the entire situation. We must take the appropriate measures and policies to strive to fully arouse and give play to this potential and enable it to make a new contribution.

### III. A Few Suggestions for Relevant Policies

The time that retired workers are considered as human resources is limited. The law of nature compels us to pay a great deal of attention to and treasure the time of retired workers, and we must not miss the opportunity to promptly adopt effective policies and measures. Otherwise, this transient opportunity will be lost. According to incomplete statistics from Shanghai's relevant departments, in 1981, approximately 10 percent of retired workers, or 100,000 people, were engaged in work both inside and outside of Shanghai, yet by the end of 1983, this figure had already decreased to 69,000 people (registered at neighborhood stations), and this constituted 5.6 percent of all retired workers. In the first 4 months of 1984 this figure decreased again to 49,000 people, or 4 percent of all retired workers. This trend will certainly not make people optimistic, and an important reason for this is the series of relevant policies issued in 1981 and 1982 which in fact placed all sorts of obstacles to the use of retired workers and thwarted the retired workers' enthusiasm. For example, the policies stipulate: "After workers retire, they ordinarily cannot remain and continue to work in their original units, and they cannot be engaged longer than 6 months;" "No worker who retires or resigns under the condition of having completely lost his ability to work can be kept on or engaged afterward;" "Units must discontinue retirement pay or insurance and welfare benefits for retired workers that are engaged without authorization," etc. Thus, starting in September 1981, all units, in accordance with the regulations, started releasing their retired workers one group after another; and the retired workers, fearing that they would forfeit their retirement pay and insurance and welfare benefits if they continued working, usually did not

dare to continue working, and the few individuals who did work were in constant fear and did not even dare to be seen out in the open. Some retired workers who have been rehired have been investigated when criminal activity in the realm of economics is being attacked, and a few people have even returned what was unlawfully taken. The result is that many retired workers have a lingering fear. Some older workers have said: "I have lived more than 60 years, have a clean record, I do not have many years left and in my old age I do not want to leave behind a bad name and harm my children and grandchildren." Although some intellectuals are willing to continue to play a role and make a contribution toward the four modernizations, they fear that the effect would not be good, and they would rather lie idle at home. Recently, Shanghai's Personnel Office and Labor Office have issued "Temporary Provisions for the Problem of Rehiring Retired Cadres and Retired Personnel," and there has already been some loosening of policies. Yet there are still many obstacles in the formalities of examining and approving, and the original unit and region must approve. With regard to wages, retired workers are still limited to "making up the subsidies," as well as the bonuses and allowances of the current regulations of the units rehiring, etc. We have still not suited the needs of the current situation.

We feel that the key to not missing the opportunity to tap and give full play to the potential of our valuable human resources is to continue to relax our policies. We should not passively add multifaceted measures but must actively offer encouragement in every respect. We must use policies to encourage Shanghai and other areas and units throughout the nation to actively rehire retired workers, allow rehired workers to draw second salaries and allow rehired workers to receive certain preferential treatment. We must be concerned about supporting the building up of the work force in every area, genuinely unite, and not show any political discrimination. The city in which the retired workers are located should not merely not restrict them, but should encourage them. They should not restrict and meddle in the amount of remuneration and duration of service of the rehired workers. Whether the individual rehired worker or his entire family is making the move, the household register in his original city should be preserved and the rehired worker should be able to return to the original city at any time, thus eliminating the fear of trouble back at home. In short, the basis of our policy must be to regard the various talents latent in retired workers as China's valuable resources, and we must help convert this potential into a new contribution for the four modernizations.

Recently, relevant departments have established a few organizations, for instance, the Federation of Trade Unions organized more than 100 retired workers, old model workers and advanced workers above the level of engineer or above Level 6 and established a retired workers technology service center. The Shanghai Association of Retired Scientific and Technical Workers invited more than 100 cadres above the level of engineer

(including more than 1,000 people from branch associations) to start specialized groups such as urban construction, textiles, electronics, machinery, light chemistry and translation, and launched many projects. The Electronics Industry Union of the Shanghai Electronics Industry Office established the Shanghai Electronics Industry Retired Workers Management Committee and started to develop activites. In short, however, not many people are involved and there is not a broad range of activites. In order to even better develop this work, we suggest that the municipal people's government determine the relevant departments and draw up corresponding policies, coordinate the different relationships and promote this work with leadership. Besides for the establishment of the groups mentioned above, we must also establish every possible type of organization and develop activites based on their special characteristics. In addition, we can develop a group of retired workers organizations, run by the local people and subsidized by the state or run by the local people, to engage in consulting service activites, and through these organizations, we can completely organize the skilled craftsmen and specialized personnel among the retired workers that are scattered throughout every corner of the city, achieve a situation whereby we are concerned politically, considerate organizationally and coordinated technologically, and enable units rehiring retired workers as well as the rehired workers to receive convenient and considerate service.

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LABOR AND WAGES

LABOR UNION RECTIFICATION PROPOSED

Guangzhou NANFANG RIBAO in Chinese 31 Oct 84 p 3

[Article: "The Presidium of the All-China Federation of Trade Unions Has Decided on a Rectification of the Unions at the Basic Level"]

[Text] Zhang Fuyou [1728 1381 2589], the chairman of the Secretariat of the All-China Federation of Trade Unions, at the cadre conference held 31 October in Lanzhou said that in accordance with the needs of the reform program of the economic system of China and by order of the Central Committee of the Chinese Communist Party, the Presidium decided that in a period of 3 years it will carry out a thorough rectification of the unions at all basic levels in the whole country and make the basic-level unions the real "homes of the workers."

He pointed out that the All-China Federation of Trade Unions as a mass organization led by the Communist Party is losing contact with the masses. This is the largest danger to this organization. At present, some local union organizations do not fully play their proper function and some have a bureaucratically caused low working impact, and do not understand their duties clearly. This situation does not suit the need of our modernization period, and it is necessary to make a reform in order to create a new situation.

Zhang Fuyou, on behalf of secretariat of the federation, required the union cadres at all levels to study conscientiously "The Decision of the Central Committee of the Chinese Communist Party on a Reform of the Economic System," to devote themselves to the reform program and to propel the reform and establishment of the "homes of the workers" forward.

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LABOR AND WAGES

DECISION-MAKING POWERS OF COLLECTIVE ENTERPRISES DISCUSSED

Nanjing XINHUA RIBAO in Chinese 24 Oct 84 p 1

[Article: "Collective Enterprises Have Decision-making Powers Toward Labor, Wages and Welfare"--Jiangsu Provincial Government Approves Important Reform for City and Township collective Enterprises Above County and Prefecture Levels]

[Text] City and township enterprises above the county and prefectural levels under collective ownership throughout the province have the power, within the scope prescribed by the state policies and based on production needs, to independently use labor force; independently decide on measures governing wages and distribution in line with the principle of "to each according to his work;" and independently determine labor protection welfare and remuneration for workers and staff members based on what the enterprises can bear economically. This is the principal guiding spirit of the "Opinion on Reforming the Labor and Wages Systems of the City and Township Enterprises above the County and Prefecture Levels under Collective Ownership" recently approved and transmitted by the provincial people's government.

The city and township enterprises above the city and prefectural levels under collective ownership in our province basically have long been modelled after the methods used for enterprises under the ownership by the whole people in production, operations, personnel and labor management, distribution of economic benefits and labor welfare thus seriously restricting the development of the force of production. Consequently, provincial departments concerned decided to carry out reform on the labor and wage systems of the city and township enterprises above the county and prefectural levels under the collective ownership by giving these enterprises more power. The important highlights are as follows:

With respect to the labor system, workers may be openly recruited under the guidance of the labor department with the good ones chosen and employed after examination; with the approval of the city and county labor departments, peasant-workers who left the farmland but remained in the village and are truly needed may be recruited from the rural areas; with the approval of responsible departments of enterprises in conjunction with the labor departments, old workers and old artists with special skills and workers in the service trades (such as barber shops and bathhouses) may bring their sons and daughters

into enterprises to pass on their skills and techniques and set an example in training new hands; retired personnel with special skills may be hired directly from society through open recruiting, retired personnel who are hired through open recruiting will continue to draw retirement expenses from their respective original units and the open recruiting units on the other hand will make up the deficiencies in the retired personnel's original wages by giving them additional adequate subsidies in accordance with their technical proficiency and the role they played in production; for personnel who are hard to recruit in society, they may be recruited openly or borrowed from units under the ownership by the whole people after consulting with departments concerned. While the status of workers and staff members so recruited or borrowed remains unchanged, their wages and labor protection benefits and remuneration may be adequately adjusted by the units which recruited or borrowed them.

To speed up the development of northern Jiangsu, the work of sending workers and staff members from southern Jiangsu in support of collective enterprises in northern Jiangsu may be carried out in the form of transfer or on loan. Wages and labor protection benefits and remuneration for those being transferred to work in northern Jiangsu may be decided favorably through consultation and housing for their dependents left behind and other benefits such as sending their sons and daughters to nurseries and schools and employment opportunities will remain the same as those being applied in their original units. In the future, because of operational needs or family hardships, persons have to be transferred back to their original units, the original units must accept them back. For those who are on loan to work in northern Jiangsu, their household registry will remain unchanged, the borrowing units, in addition to taking care of their wages and labor protection benefits, should also provide them adequate subsidies. They will return to their original units upon expiration of the period of temporary duty.

With respect to the wages and distribution system, after delivering appropriately to the state and retaining sufficiently for the collectives in accordance with the policies, the surplus portion may be independently distributed. Flexible and varied forms of distribution may be adopted to take care of distribution of the individual portion retained from after-tax profits for workers and staff members in conjunction with the bonus fund taken out before tax according to the state regulations, and the above-norm piecework wages payable according to regulations by units paying piece rate wages.

With respect to the welfare system, the system of social security should be actively promoted whenever the economic conditions permit. In the spirit of helping workers and staff members solve their unusual hardships and at the same time arousing their enthusiasm for production, enterprises should decide on such welfare benefits as sick leave, medical expenses, expenses for visiting relatives, subsidies for workers and staff members after death, medical expenses in support of direct dependents of workers and staff members and so forth. Enterprises should also establish different types of welfare projects whenever economically feasible.

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LABOR AND WAGES

BRIEFS

LABOR EXPORTATION--On the afternoon of 9 October the Hubei provincial government held a farewell party in Hongshan Auditorium for 940 labor cooperation workers who were leaving China for the battery factory in Iraq, the flannel factory in Greece and the agricultural and livestock joint venture in Rwanda. These are young workers, the oldest being 39 years old. Among the 34 female textile workers the youngest is 19 years old. The Chinese-Rwandan agricultural and livestock-joint venture is the first Chinese-foreign joint venture abroad. Rwanda's workers said that this creative work was entrusted to the young people as a reflection of the fact that the Hubei provincial party committee and provincial government are bold enough to develop the cooperation of laborers with foreign countries. [News brief: "Another Group of Laborers in Hubei Province Is Leaving the Country; Provincial Government Gives Them Farewell Party"] [Text] [Wuhan HUBEI RIBAO in Chinese 10 Oct 84 p 1] 12715

CSO: 4006/68

## TRANSPORTATION

### CHINA'S INLAND RIVER TRANSPORT DISCUSSED

Beijing DILI ZHISHI [GEOGRAPHICAL KNOWLEDGE] in Chinese No 9, 7 Sep 84  
pp 2-4

[Article by Zhou Mingjing [0719 2494 6975]: "China's Inland River Transport"]

[Text] Inland river transport is a form of transport with the longest history in China's communications and transportation; it was the primary form of transportation in China before this century. It was already becoming nonexistent prior to Liberation, and after Liberation it developed considerably. However, since we did not sufficiently recognize the importance of developing inland river transport, the proportion of inland river transport in communications and transportation declined and could not suit the needs of developing the national economy and advantageous natural conditions were not fully utilized.

The 12th Party Congress made vigorous strengthening of communications and transportation a key strategy to realize the overall objective and general task. Inland river transport is an important component of communications and transportation. Studying the conditions for developing China's inland river transport, analyzing the role of inland river transport in China's communications and transportation and investigating the prospects of development of inland river transport are highly significant to realizing the magnificent goal of the four modernizations and quadrupling the total industrial and agricultural output value by the year 2000.

#### I. Natural Conditions with Exceptional Advantages

Natural rivers and lakes are the necessary conditions for developing inland river transport. Only with rivers and lakes can we open navigation channels, and navigation channels are the foundation for developing inland river transport. In China's vast territory of more than 9.6 million sq km, rivers and lakes are scattered throughout the country. There are more than 50,000 rivers with a drainage area of 100 or more sq km and more than 1,500 rivers with a drainage area of 1,000 or more sq km. Moreover, there are more than 900 lakes of various sizes.

Most of China's major rivers including the Heilong Jiang, Huang He, Huai He, Chang Jiang and Xi Jiang flow into the ocean from west to east, but

the main tributaries of the Chiang Jiang--the Min Jiang, Jialing Jiang, Wu Jiang, Xiang Jiang, Han Jiang and Gan Jiang as well as the Liu Jiang, Gui Jiang and Bei Jiang of the Zhu Jiang system converge into main streams from the southerly and northerly directions, so that if we excavate connecting canals between the Chang Jiang and Zhu Jiang systems we may be able to build an inland river navigation network in the vast southwest, central south, southern China and eastern China regions which links the rivers, lakes and seas and which criss-crosses in all four directions.

The rivers south of the Qinling Mountain Range and the Huai He are abundant in water and do not freeze throughout the year. Moreover, the region is densely populated, its agriculture and industry are relatively more developed and it has always been a developed region in inland river transport. However, the rivers north of this region are mostly high in sand content, have unsteady flow volumes and freeze for long periods of time. With the exception of the Heilong Jiang system which is navigable for half a year, most of the rivers in the northwest and north China regions will lack the conditions for developing inland river transport if water is not transferred from the south.

The natural conditions are particularly advantageous for developing inland river transport in the Chang Jiang and Zhu Jiang systems. The Chang Jiang has a total length of 6,300 km and a drainage area of more than 1.8 million sq km which constitutes over one-fifth of China's total area. The average flow volume into the sea for many years is almost one trillion cubic meters, which is 35 percent of the national total. The mainstream of the Chang Jiang from Yibin to Changjiang Kou is 2,813 km in length. It connects the 3 large regions of the southwest, central south and eastern China, has good conditions for navigation and has been praised as the "golden waterway." The Zhu Jiang system from Baishe on the You Jiang to Modao Men where the river flows into the sea is a waterway of 1,269 km which also has relatively good conditions for navigation. It joins Guangdong and Guangxi, links up with land transportation and can be developed as an important passage to the sea for the Yunnan and Guizhou regions.

The Huai He basin is abundant in coal and other resources which can be connected to the route along the Chang Jiang through the Beijing-Hangzhou Canal. The Huai He is also a framework in China's network of inland waterways. The shipping of the Qiantang Jiang is also relatively developed. The engineering for linking it to the Beijing-Hangzhou Canal has already begun and when completed it will be directly connected to the Chang Jiang.

Large rivers can become transportation arteries after their treatment. A large river such as the Chang Jiang has the transportation potential of more than 10 trunk railways; the Min Jiang, Xiang Jiang, Han Jiang and other large tributaries can also reach the capacity of providing passage for several railways when they are developed; and countless small rivers are important branches for joining cities and rural areas. Natural rivers with a total length of 430,000 km are valuable resources for developing China's inland river transport.

## II. Development of Inland River Transport

After the founding of the state, China's inland river transport generally went through 3 stages of development. The 1950's was a stage when inland river transport recovered and developed relatively rapidly. At that time, the Ministry of Communications did not have a head administration bureau in charge of inland river transport of the entire country but it organized affiliated shipping administration bureaus for the Chang Jiang, Zhu Jiang, Heilong Jiang and Hai He systems and completed the socialist transformation of private shipping enterprises, and cooperatives were organized among individually-operated wooden junks. In 1957 the length of navigable inland waterways in China reached 144,000 km, passenger and freight volume of inland river transport grew rapidly and its proportion in the domestic turnover of goods was as high as 13.4 percent. Inland river transport made important contributions to the recovery of the national economy, completing the First 5-year Plan ahead of schedule, giving support to the War to Resist U.S. Aggression and Aid Koreas as well as transferring Sichuan grain to other localities.

Inland river transport developed slowly in the almost 20 years after entering the 1960's. Because the comprehensive utilization of water resources stressed water conservancy and hydropower and deemphasized transportation, by 1979 more than 2,000 obstructive floodgates and dams had been formed on China's navigable rivers; in communications and transportation construction emphasis was put on railways while river transport was deemphasized. Investment on inland river transport by the state decreased, resulting in the shipping of large quantities of goods and materials on land rather than by river transport. In 1979 the navigable inland waterways in China had been shortened to 100,000 km and the proportion of inland river transport in the national turnover volume of goods and materials fell to 7 percent. Inland river transport was not developed the way it should and this became a major cause of strain in communications and transportation.

Since the Third Plenary Session of the 11th CPC Central Committee, because leading comrades of the Party Central Committee and the State Council repeatedly stressed solving the problem of communications and transportation, they demanded that air, land and water transportation join together to build water conservancy projects and hydropower and consider opening waterways for navigation and not allow water traffic to worsen, and they instructed communications and hydropower departments to make a concerted effort to dredge inland waterways and vigorously increase navigability and fully utilize the advantageous conditions in China to develop inland river transport. Consequently, in 1982 the Ministry of Communications reestablished the administration bureau in charge of China's inland river transport and made the development of inland river transport one of the three key points in initiating a new situation for communications and transportation. In the last few years the proportion of inland river transport has gradually risen, some long-time problems are beginning to be resolved and inland river transport is entering a new stage of development.

Although China's inland river transport has undergone a tortuous course of development for over 30 years, there has been considerable development compared with the early period of the founding of the state. It has fully demonstrated the strong points of modern inland river transport in its large freight volumes, investment savings, low land use, low energy consumption and quick results.

In the transportation of passengers and goods, comparing 1983 to 1952, the passenger volume increased 7.9-fold, passenger turnover volume increased 5.4-fold, freight volume increased 7.2-fold and turnover volume of freight increased 9.3-fold.

In the area of water channels, before Liberation China's inland river channels had always been in a natural state but now preliminary treatment of major inland river channels have begun. After dredging the Chuan Jiang, for which it has been said that "the way to Sichuan is more difficult than reaching for the sky," the shallowest depth of 660 km of its navigation channel has been increased from 2.1 to 2.9 meters which can now accomodate 1,000-ton barge fleets throughout the year and the round-trip time for shipping between Yichang and Chongqing is reduced from 10 to 5 days.

Between 1958 and 1960 the northern Jiangsu section of the Beijing-Hangzhou Canal was rebuilt into a channel accessible to 2,000-ton barges and 10 large locks were successively constructed. The annual freight volume of this 404-kilometer canal increased from 920,000 metric tons before its completion to 20 million metric tons, which not only eased the pressure on the southern section of the Tianjin-Pukou Railway but also yielded comprehensive results of flood prevention, drainage of flooded fields and irrigation thereby promoting rapid development of industry and agriculture in the region. It has become a fine example for the comprehensive treatment of rivers used primarily for navigation.

The Lian Jiang in Guangdong is a river in a mountainous region with many shoals and rapids and has a total length of 262 km. Since 1959, 11 cascades were successively built between Lianzhou and Hanguang which has basically been channelized and has played a fine role in developing the economy of the mountainous region. Besides, navigation conditions have been improved for the Jialing Jiang, Yuan Jiang, Xiang Jiang, Han Jiang, San Jiang, Yuxi He and You Jiang after varying degrees of dredging.

With regard to ports, for over 30 years major changes have taken place in the appearance of ports along the Chang Jiang main lines. The port handling capacity of the entire line has exceeded 120 million metric tons. Highly mechanized water and railway coal through-transport docks have been newly constructed in river ports such as Wuhu, Nanjing and Wuhan; new harbor regions have been developed in some districts in Chongqing such as Jiulongpo and Zhicheng; a large crude oil shipment dock has also been built in Zhaozhuanggou in Nanjing, and large electric power, metallurgical, oil refining and chemical industrial enterprises have built a number of docks for special use by cargo-owners along the river. Besides, the inland river ports of such places as Changsha, Nanchang, Hefei, Wuzhou

and Guangzhou have increased their facilities and therefore their handling capacity.

In the area of shipping, China's existing tonnage of barges in 1983 was a 23-fold increase over 1952. After renovation and transformation, less than one-tenth of the more than 3 million metric tons of wooden junks from before Liberation now remains. In 1949, 79 percent of the river freight volume was completed by wooden junks; today more than 95 percent is completed by motorized shipping and ships are basically using diesel engines. Modern articulated barge push-transport has rapidly developed. Having imported large 6,000-horsepower push wheels [tuijun 2236 6544] in the 1980's, push-trains organized from 2,000-ton barges in the lower reaches of the Chang Jiang have reached 30,000 metric tons. In recent years, the push-trains of Hunan navigating along the direct routes of the Hunan-Shanghai main branches have also reached 3,840 metric tons, which demonstrates the advantage of large freight volumes in modern inland river transport. In the area of inland river passenger transport, a number of Dongfanghong 11-Class (Hanshen line) and 39-Class (Hanyu line) passenger ferries have been constructed thereby improving passenger transport on the Chang Jiang main lines. Formerly it took 12 days to go back and forth between Wuhan and Shanghai. Express ferries now take only 5 days, which has given convenience to passengers and promoted the development of tourism of the Chang Jiang.

With regard to water transport industry, it developed from nothing from small to large, and it carries out the guiding principle of "repairing and building at the same time and putting repair work in the main." Currently we have built a number of shipbuilding and repair yards, harbor machinery plants and navigation mark plants. We can build push wheels under 4,000 horsepower, various types of barges under 5,000 metric ton and various kinds of port loading and unloading equipment.

In the area of education, scientific research, and design, there are numerous universities and colleges which train middle and low level personnel for inland river transport departments; and scientific research, planning and design organs concerning inland river transport have been set up in Beijing, Tianjin, Nanjing, Wuhan, Harbin and Guangzhou. China is already able to independently design large high-head locks and highly mechanized inland river ports.

China's inland river transport departments have a contingent of more than 1.2 million staff and workers. Although the technical level of its inland river transport facilities is considerably below advanced levels in the world, an inland river transport system has begun to take shape and has been built. This is the foundation for modernizing China's inland river transport.

### III. Magnificent Prospects for Development

As a summary of more than 30 years of experience and lessons in the development of China's inland river transport, in the comprehensive utilization of water resources, we must fully consider the needs of opening waterways for navigation and must not permit conditions for navigation to worsen. In constructing the network of communications and transportation, we must comprehensively compare water, land and air transport, use water transport when water transport is suitable and use land transport when land transport is suitable. In particular we must fully utilize the Chang Jiang and Zhu Jiang systems to develop the advantageous conditions of inland river transport; and in the distribution of industry we must stress building factories along rivers and develop industrial corridors along rivers.

The Ministry of Communications has already decided to accelerate the construction of an inland river transport network with the Chang Jiang, Zhu Jiang, Heilong Jiang, Beijing-Hangzhou Canal and the Huai He as the framework, and moreover, revolving around economic centers such as Chongqing, Wuhan, Shanghai and Guangzhou, and in accordance with the needs of economic development, to build gradually several regional transportation networks which have unified navigation standards, complementary port facilities, advanced shipping technology, flexible control and command and whose main and branch lines are accessible.

By that time, on the rivers and lakes of the motherland, fleets of large push-trains carrying tens of thousands of metric tons will be shipping coal, oil, ore, mine construction materials and other staple goods for factories and mines along the riverside; fast motorized barges will be shipping goods and materials needed in production and everyday life to economic centers; motorized and mobile shipping for agricultural use will be active on the tributaries and small rivers of regions of river network to contribute to the development of rural commodity production; composite ships [Zimu Chuan 1311 3018 5307] will become an important transportation tool for developing foreign trade by inland riverside cities; fast hovercrafts and luxurious passenger ships will be busy carrying tourists to famous scenic spots. A modern inland river transport system with a Chinese character will play its proper role in China's communications and transportation.

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